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POLITICAL SCIENCE QUARTERLY

THE REVENUE ACT OF 1945

I

A LONG tax cycle passed a turning point with the Revenue Act of 1945. For the first time since 1929 a large-scale tax reduction bill has been enacted by the federal government. The year 1929 had itself marked the end of an uninterrupted series of tax reduction acts starting with the Revenue Act of 1921. These remarks apply only to internal revenue legislation; the customs-duties cycle has followed just the opposite course, the rates on imports having been raised in the Tariff Acts of 1921, 1922 and 1930, and lowered since then through reciprocal trade agreements. The revenue yield of the customs duties, however, has become relatively small.

II

The Revenue Act of 1945 reduces the estimated liabilities of taxpayers for the calendar year 1946 by $5.9 billion. The amount of money received by the federal government during that period will decline by perhaps half that amount. Corporations accrue a tax liability under the income tax and excess profits tax in the year in which they earn their profits, but do not pay the tax until the following year. The high tax rates on the wartime profits of 1945 will be reflected in the 1946 tax

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yield; the lower tax rates that will be applied to 1946 profits, themselves no doubt lower in the aggregate, will be reflected chiefly in the calendar 1947 receipts of the government.

Individuals, on the other hand, generally accrue and pay their income tax in the same year, thanks to collection at source and the quarterly payments on an estimated basis.

The relative size of the $6 billion tax reduction may be appreciated by comparison with the following totals, in billions of dollars, under the federal revenue system as it stood before the Revenue Act of 1945:

Actual receipts in the twelve months ending June 30, 1945 [1]	46.5
Estimated receipts for:	
Twelve months ending June 30, 1946	
Estimate made before Japan surrendered [2]	39.0
Estimate made after Japan surrendered [3]	36.0
Calendar year 1946	(not given [4])
Actual liabilities for:	
Calendar year 1944 [5]	41.4
Estimated liabilities for:	
Calendar year 1946 [6]	32.5

[1] Bureau of the Budget, Press Release, August 2, 1945, "Review of the 1946 Budget".

[2] *Ibid.*

[3] *Bureau of the Budget, Press Release, August 31, 1945.*

[4] Neither the Treasury nor the Bureau of the Budget published an estimate of collections for the calendar year 1946.

[5] Statement of Secretary Vinson before Ways and Means Committee, October 1, 1945, Treasury release, p. 4.

[6] 79th Congress, 1st Session, House of Representatives, Report No. 1106, October 9, 1945, pp. 3-4. This estimate includes the federal social security payroll taxes (which are almost entirely for the old-age and survivors insurance program, not unemployment insurance) only on a "net" basis, that is, payroll-tax revenue less appropriations to the social security fund (not actual outpayments). In the fiscal year 1945, payroll-tax revenue was $1.8 billion and appropriations to the

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Under the law as it stood prior to the Revenue Act of 1945, the employee and employer payroll taxes for the old-age and survivors social security fund were each scheduled to rise from 1 per cent to 2½ per cent of payrolls on January 1, 1946. The Social Security Act had scheduled a rise from 1 per cent in 1937-1939 to 1½ per cent in 1940-1942, and so on, to a permanent level of 3 per cent each in 1949. Each time the date for a step-up has drawn near, Congress has kept the rates frozen at the initial level of 1 per cent. This year proved to be no exception; the Revenue Act of 1945 keeps the rates at 1 per cent each. This reduction in potential revenue is not taken into account in the $6 billion total.[7] If it were, the tax reduction would total almost $7.4 billion.

In summary, the annual revenue of the federal government on a taxpayer-liabilities basis will have declined from a peak of more than $41 billion to less than $27 billion, or nearly $15 billion. Of this, some $9 billion is attributable to the shrinkage in money flows that marks the return from a wartime level of activity and spending, even assuming that the return is to a peacetime economy showing no large amount of unemployment. Another $6 billion or so is attributable to Congressional action under the Revenue Act of 1945.

The significance of the $6 billion decrease depends partly upon the relative size of expenditures and of the federal debt.

trust fund, $1.3 billion, leaving $0.5 billion net revenue. On the other hand, no subtraction is made for tax refunds, which may be especially large in 1946. Under the federal government's accounting, tax refunds are listed as expenditures instead of being deducted in computing receipts. If both social security taxes and tax refunds were taken into account, the $32.5 billion total might be slightly larger. All of the totals for 1945 or 1946 include about $500 million from customs duties and nearly $3 billion from miscellaneoeus nontax receipts.

[7] The total of receipts is on a "net" basis as explained in note 6 *supra*. The Budget Bureau's estimates assume that if the payroll-tax rates went up, the appropriations to the fund would rise similarly, leaving an unchanged "net" total. Hence the freezing of the rates at 1 per cent does not affect the total, as thus computed. Bureau of the Budget, Press Release, August 2, 1945, p. 10.

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Federal expenditures, which just nosed into the 12-figure class by reaching $100.1 billion in fiscal 1945, were estimated by the Budget Bureau a short time ago (after the surrender of Japan) at $66.4 billion for fiscal 1946. No estimate for calendar 1946 has yet been published, but perhaps $40 billion will not be far off. And for calendar 1947 the expenditure total might be not far from $25 billion.

These totals imply a deficit, under the Revenue Act of 1945, of slightly more than $30 billion in fiscal 1946 and, roughly, almost a balanced budget in fiscal 1947 if there are no further tax reductions and if business activity remains at a high level. There could easily be a surplus or deficit of $2 billion or $3 billion, even under these assumptions. Incidentally, this degree of approximation would have seemed tantamount to making no estimate at all, back in the later 1930's, when the federal expenditures were below $10 billion a year.

Under these assumptions, the federal debt would be stabilized for the time being at a level of almost $280 billion. It was nearly $260 billion on July 1, 1945, and the fiscal 1946 deficit will be met in part by drawing down the Treasury's huge cash balance, which was slightly over $25 billion at that time. The annual interest charge on a $280 billion debt, at current rates, would be almost $5 billion.

The central issue in the debate over the size of the revenue reduction is the relative probability of inflation or deflation in the near future. Secretary Vinson, in his appearance before the Ways and Means Committee, made a brief qualitative analysis of the inflationary and deflationary factors, but gave no quantitative analysis of how the Treasury had reached the figure of $5 billion as the maximum desirable tax reduction for the Revenue Act of 1945. Nor has the Bureau of the Budget published any quantitative analysis of the approximate amounts of tax revenue needed to prevent inflation. The reason seems to be partly that neither the Treasury nor the Budget Bureau has yet

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set up an analysis unit devoted to this problem large enough to make satisfactory estimates. In part, the absence of quantitative, as opposed to qualitative, analysis may reflect an opinion that forecasting inflation or deflation as far as a year or two ahead is not feasible, at least not to a degree of accuracy useful for policy purposes, and that reliance must be placed on prompt and perhaps frequent changes in taxation and expenditures in accord with current indexes of unemployment, price levels, and so on. Such pessimism over ability to forecast is not, however, the philosophy of the Murray-Wagner "Full Employment" bill, which both the Treasury and the Budget Bureau have supported. The size of the federal budget and the fairly large size of the revenue change contemplated—and made—by this year's legislation suggest that the past few months would have been an excellent time for the publication of a quantitative analysis. No doubt manpower shortages in the research field have played their part here. Other factors are the decided differences of opinion that are evident among economists in Washington (and elsewhere too) as to the probable course of business even under a given revenue and expenditure system. But the net result so far is that, although the approach to the budgetary problem is somewhat advanced over that of a quarter-century ago as to an analysis of the qualitative factors, the authorities are necessarily still pretty much groping in the dark for the weights to be given to each factor, and the size and even the direction of the net resultant of all the forces. It seems appropriate to urge that, whether or not the Murray-Wagner bill is passed, the relevant Washington agencies be given research staffs large enough at least to explore the present limits to quantitative "national budget" analysis.

In any event, it seems unlikely that a change in tax revenue on the order of $1 billion or so would have an appreciable effect on inflation or deflation over the near future. The economic issue is whether any tax reduction at all should have been voted,

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or even a tax increase enacted, or a reduction of $12 billion instead of $6 billion granted. This remark is occasioned partly by the size of the debt, and also by the size of the stock of money, which by the end of this calendar year will be above $100 billion. This figure covers demand deposits and currency outside banks, not counting United States government deposits that will total somewhere between $10 billion and $20 billion.[8] The chief danger of inflation seems to be in the possibility that a number of individuals or business corporations will spend in excess of their current incomes (although for the economy as a whole, expenditure is not likely to exceed income, even under inflation). The necessary money and cashable savings bonds are present in amounts that make a tax change of $1 billion look small indeed. Likewise, if deflation comes, it will probably be caused by important physical bottlenecks or by disputes over shares in income, and accelerated by a growing lack of confidence; the net result, again, seems unlikely to be influenced much by a billion or so dollars of tax revenue a year.

III

The Revenue Act of 1945 makes no advance toward solving the problem of corporate taxation, high-bracket incomes, and other issues of equity. This is by design; the choice had to be made between (a) a quick revenue act passed in time to allow changes in withholding tables by January 1, 1946, plus a more considered act in 1946 to deal with issues of equity and economic incentive (see IV below) and (b) postponement of individual income tax relief to 1947 so that revenue, equity and economic issues could be considered together in one big bill during 1946. There were persuasive reasons for adopting the first course. But

[8] On August 31, 1945, the total of "demand deposits adjusted and currency outside banks", not including federal deposits of $17.3 billion, was $100.3 billion. On June 30, 1940, it was $38.7 billion; on June 30, 1933, $19.2 billion. Time deposits on August 31, 1945, were $45.9 billion. *Federal Reserve Bulletin*, October 1945, p. 1031.

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as it turns out, a necessary cost is that the equity problem will seem harder to solve, in 1946, even though in reality it is not. The equity readjustment in 1946 will have to be made chiefly by putting on some one taxpayer what is taken off another, rather than by simply taking off taxes from someone. This observation assumes that the net quantitative tax reduction desirable for a peacetime budget at high levels of employment has already been reached approximately, under the Revenue Act of 1945. Specifically, it assumes that the remaining leeway is not more than $2 billion or $3 billion, at least after there has taken effect a billion dollar decrease in those excise taxes that are scheduled, by the Revenue Act of 1943, to be reduced six months after hostilities are declared terminated (this declaration has not yet been made). This potential, almost certain, billion dollar decrease is not included in the $6 billion figure; the excise tax laws were not changed by the Revenue Act of 1945. However, the use tax on automobiles ($5) and boats ($5-$200) was repealed.

One of the equity issues to be faced is whether corporate profits should be taxed once in the hands of the corporation and again in the hands of the stockholder when declared in dividends (the present system), or whether they should be taxed only once, with or without a supplementary tax on undistributed profits and with or without an increase in the present rate on capital gains (25 per cent maximum). The action taken by Congress in the Revenue Act of 1945 suggests that it will be very difficult, if not impossible, to move far on this issue in the next year or two unless the solution is one that leaves on corporations en bloc about as much taxation as they will carry under the new revenue act. This act gives corporations all, if not more than, they could have hoped for in a quick tax reduction bill, while it does not move toward a solution of the corporate tax problem. The Revenue Act of 1945 not only repeals the excess profits tax entirely as of January 1, 1946, thus losing $2.6 bil-

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lion in revenue,[9] instead of retaining the tax for a year at a reduced rate, as the House asked; it also maintains during 1946 the carry-back of unused excess profits tax credit, whereby a deficiency in normal earnings in 1946 (as computed under the repealed excess profits tax law) can be carried back to earlier years to transform excess profits into normal profits and thus require a refund of that part of the excess profits tax of the earlier year that exceeds what the ordinary corporate tax on the same block of income would have been. In addition, the act repeals the capital stock tax and its accompanying "declared-value excess profits tax" ($234 million). More important, the act goes beyond the Treasury's recommendations, and beyond the program of either legislative house taken separately, in adding (through conference committee action) a modification of the House proposal for a lower ordinary tax on corporations. Corporations with net income of less than $25,000 receive a reduction of 4 percentage points in their combined normal-surtax rates. The reduction for corporations with net incomes of more than $50,000 is 2 percentage points, from 40 to 38 per cent. The rate on the intermediate block of income ($25,000-$50,000) for corporations with net income falling in that range remains unchanged. Thus the average effective rate for all corporations now ranges from 21 per cent to 38 per cent. The annual revenue loss is $347 million.

Any one of these proposals by itself can be supported with excellent arguments of equity. All together, they will reduce, if not extinguish, enthusiasm for further corporate tax reduction in any 1946 act. "The reductions for corporations in my

[9] The degree to which excess profits tax liability is concentrated in a few corporations is illustrated by the estimate that, of this $2.6 billion, $1.8 billion accrues to only 900 corporations, another $0.6 billion to 6,000 corporations, and the remaining $0.1 billion to 12,200 corporations. About 261,000 corporations will file returns for 1946 taxable under the ordinary corporation income tax. Statement by the Chairman of the Ways and Means Committee, *Congressional Record*, October 11 1945, p. 9762.

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opinion are as great as can be expected for a long time", says Senator Robert A. Taft, who cannot be accused of an unsympathetic attitude toward the corporations' complaint of double taxation. "Corporations certainly cannot look forward to any further reduction in 1947 and 1948."[10] It begins to look as if the Treasury and the Congress would have a breathing spell in which to work out a solution to the corporate tax problem.

A determined attack in 1946 on the other equity problem, the high-surtax area of individuals, is not barred by the Revenue Act of 1945. The rate reductions on incomes of $5,000 or more, although appreciable, still leave the stage set for discussing how high surtaxes should be, and how loopholes may be plugged. Neither question is of much direct importance from the viewpoint of total revenue, but both are extremely important as tax equity issues; and equity issues cannot be consistently ignored without shaking the morale of those who are disadvantaged and rotting the morale of those who are favored, with incalcuable consequences for the long-term future of the whole tax system. The present article is not of a scope to allow even a brief discussion of these issues; they include, for example, tax-exempt income from state and local bonds, family income trusts, capital gains and losses, undistributed profits, depletion, community property returns and separate returns, the interrelations of the estate and gift taxes, trusts designed to skip these transfer taxes, and the averaging of fluctuating incomes, including the question of a carry-forward and carry-back of unused personal exemptions.

For a married couple with two dependents and a net income from salaries or wages (or interest or net rents or unincorporated-firm profits, for the higher brackets) of the amounts specified below, the following table shows the amount of federal income tax payable under (a) the Revenue Act of 1928, as modified by the last, slight tax reduction measure of the 1920's, en-

[10] *New York Times*, October 28, 1945, I, 26.

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acted in 1929, (b) the revenue law as it stood just before the Revenue Act of 1945, and (c) the Revenue Act of 1945 (first applicable to 1946 incomes). All items are rounded to the nearest dollar. "Net income" means income after all deductions but before subtracting the personal exemption and credit for dependents.

Net Income	*1929* [11]	*1945* [12]	*1946* [12]
$2,000	$0	$45	$0
2,500	0	160	95
5,000	3	755	589
10,000	41	2,245	1,862
25,000	838	9,705	8,521
50,000	4,166	26,865	24,111
100,000	14,846	68,565	62,301
1,000,000	230,846	900,000	838,850

The new act eliminates some 12,000,000 taxpayers from the income tax by granting exemptions for spouse and dependents under the 3 per cent normal tax, but there remain about 36,000,000 taxpayers. The revenue loss from the 12,000,000 taxpayers is about $300 million. There is no disposition at all to give up the collection-at-source, pay-as-you-go system.

IV

With respect to economic incentives to investment, it seems likely that 1946 will witness considerable discussion and some research and possibly some experiments. That part of the problem concerned with comparing the incentive effects of a corporate tax with those of a tax on individuals may be set aside for a year or two, in view of the size of corporate tax reduction in the 1945 act. As examples of the issues, consideration of which

[11] Computed from rate tables in *Statistics of Income for 1941*, Part 1, pp. 284-285, 288-89, 294.

[12] *New York Times*, October 28, 1945.

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has not been forestalled by the Revenue Act of 1945, the following may be mentioned: the top limit to be set on the surtax scale, or even on an over-all average rate; the shape of the tax-rate curve; the comparative tax status of the small corporation and that of the new business firm, incorporated or unincorporated; the issue of accelerated depreciation, and the further proposal to grant favored tax status to reinvested earnings or to new capital investment generally. In terms of immediate revenue, no one of these may be very important; in terms of equity, there may arise conflicts with economic stimulation; but the importance of each is to be gauged rather in terms of its possible trigger action in releasing investment—or blocking it. Again, so little is actually known about the quantities involved that any action taken as early as 1946 must reflect chiefly guesswork; but the government agencies, if their research staffs are expanded, can at least sketch in an outline here and there, as they study the sources and motives of investment in relation to tax measures.

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THE LEAGUE LOANS

THERE is a sound precedent for the establishment of an international financial institution to which nations ravaged by war can turn for aid in the tasks of reconstruction and development.* Yet in all the discussions of the Bretton Woods proposals, too little attention has been paid to the experience gained by the Financial Committee of the League of Nations in connection with the League Loans made during the nineteen-twenties. Six countries which otherwise would have found it impossible or prohibitively expensive to obtain foreign capital were enabled to reorganize their finances and obtain funds at moderate cost; and several other countries received advice and assistance but did not borrow under League auspices. In all of these cases, the coöperation of the League was far more important than the sums involved. Financial experts appointed by the League made recommendations for restoring budget equilibrium; new central banks were established or old ones remodeled in accordance with their plans; currencies were stabilized and new monetary systems devised where necessary; and state-owned railroads were placed under supervision. The wide scope of the plans worked out by the League for each country was the secret of their effectiveness.

The lessons learned during this period following the First World War should be extremely valuable during the financial reconstruction which must follow the Second World War. The situation of many countries in Europe in 1945 is tragically like that which prevailed in 1919. The collapse of economic and financial institutions, the destruction of capital and the blocking of trade channels have made essential, now as then, the pro-

* The sources used in the preparation of this article were the official publications of the League of Nations, and the reports of the League Loans Committee in London.

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vision of financial aid from outside in order to initiate the restoration of economic health.

This need was not immediately recognized in the period which followed the end of hostilities in 1918. It was thought at first that if only foreign trade could be revived, that alone would be sufficient to start a revival of the whole economy. Great Britain acted on this assumption when in September 1919 the British Board of Trade was empowered to grant credit to British exporters, provided that the goods exported were produced in the United Kingdom and that they were being sent to countries on the approved list. The effect of this Export Credit Scheme was disappointing, even after it was strengthened by a government guarantee of the credit. It became apparent that credit for exporters could not take the place of the necessary purchasing power on the part of the importer, and that some form of international action was necessary.

The International Financial Conference which was called by the League of Nations in Brussels in 1920 to consider these problems realized that no mere extension of the British Export Credit Scheme would be sufficient, and in its final recommendations included also long-term credits for relief and reconstruction. The only plan worked out in any detail, however, was that proposed by the representative from Holland and named for him, the Ter Meulen Plan. Its object was to provide import credits and thus facilitate the revival of foreign trade. The governments of the importing countries were to issue their own obligations, and these bonds would be loaned to importers for use as collateral security against the foreign credit needed to finance the importation of raw materials and other primary necessities. The most important feature of this plan was that a subcommittee of the Provisional Economic and Financial Committee of the League would aid in putting it into operation.

A great amount of effort went into the preparations for the Ter Meulen Plan. An Organizer of International Credits, Sir Drummond Fraser, was promptly appointed, and he began at

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once to inquire which governments wished to avail themselves of this credit, and how it could be made most useful to them. He wrote articles and pamphlets explaining the plan, and prepared standard forms for the necessary legal documents. Although this preparatory work was carefully done, the Organizer was obliged to report that most countries showed little interest in this type of credit. Indeed, some countries expressed positive opposition to the plan on the grounds either that it would involve outside interference in their domestic affairs, or that it would classify them as "impoverished" nations. Moreover, as the London *Economist* pointed out in its editorial of April 16, 1921:

> If the borrowing nation should elect at any time to default, then no amount of assigned assets, of control by the League or by local supervisors, will compel it to implement its guarantee, and the loan becomes bad debts.... The ultimate security for such trading loans as the ter Meulen scheme contemplates is the good faith of the country concerned.

The cumbersome mechanism for short credit was never called into use, and the Ter Meulen Plan, in spite of the high hopes it had aroused, was abandoned. One important idea, however, had been given emphasis by this plan: the suggestion that the League of Nations was a proper authority to supervise international capital movements. During the next decade this became the basis for the League Loans.

The Austrian Guaranteed Loan

Austria was the only country which had expressed any serious interest in the Ter Meulen Plan; but by the time that the details of the plan had been worked out, the situation in Austria had become so crucial that far more drastic measures were necessary. The small portion of the old Austrian Empire which was thenceforth to call Vienna its capital had been left in a desperate plight by the war into which it had entered so unwillingly. Almost bare of food, and without funds for the purchase of food abroad, Austria was obliged to appeal to the charity of the world in the first years after 1919. The response

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was quick and generous, not only from the Scandinavian countries, which had been neutral during the war, but also from former enemy countries. Food was sent by charitable organizations of many countries almost as soon as the armistice was signed; further supplies were provided by the governments of Holland, Switzerland, Norway, Denmark and Sweden, and credits for the purchase of relief supplies were opened by the governments of the United States, Great Britain, France and Italy. The total was estimated at nearly 150 million dollars.

But Austria could not live indefinitely on the charity or even on the credit of friendly nations, and it was clear that a long-range plan would be necessary. The first attempt in this direction was made in the autumn of 1920 by Sir William Goode, chairman of the Vienna section of the Reparation Commission, who proposed that the Allied governments should loan Austria 250 million dollars. This "Goode Scheme" was rejected by the Supreme Allied Council, because of the poor credit standing of the Austrian government. The "Loucheur Scheme", which would have organized a private corporation capitalized at 200 million francs for the purpose of developing Austrian industry, was never considered seriously, for it would have made of Austria a mere colony.

The failure of these attempts to meet the desperate need of the Austrian people led Chancellor Seipel to sound out opinion in the principal capitals of Europe regarding the possibility of assistance through the newly organized League of Nations. As a result of his *démarche*, the Austrian government sent its financial representatives to London in March 1921 to lay before the Supreme Allied Council a statement of the Austrian situation and to ask for assistance in making plans for the financial reconstruction of the country. The Council referred this request to the Provisional Economic and Financial Committee of the League of Nations, asking it specifically to consider whether the Ter Meulen Plan might be adapted for long-term credits. Collateral security for such loans could be made available if the Allied Powers would release their claims against the Austrian government for occupation costs, reparations, and relief loans; Great Britain, France, Italy and Japan had already expressed

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their assent to this proposal on condition that other Allied governments follow their example.

The League Committee, which met in Paris a week later, appointed a special subcommittee to go to Vienna and prepare a report on all aspects of the situation, with recommendations for action. M. Avenol and Mr. Gluckstadt of the Financial Committee, and Sir Drummond Fraser who had been working on the Ter Meulen Plan, therefore spent April and May 1921 in Austria. Their report, which was approved by the Financial Committee and presented to the League Council, made it clear that before Austria's credit could be built up to a point justifying an attempt to float a foreign loan, it would be necessary for the government to take stringent measures. The budget would have to be brought more nearly into balance by the elimination of Treasury deficits; an internal loan would have to be floated as evidence of improved government credit; the bank of issue would have to be reorganized, and the printing of paper currency eliminated. Moreover, Austria needed above all to reëstablish normal trade relations with other countries, and it was to be hoped that the Conference of Porto Rosa, called for November 1921, would lead to a start in that direction.

The Austrian government at once began to carry out the preliminary steps outlined by the Committee. Food subsidies, which had accounted for one half of the budgetary deficit envisaged for 1922, were abolished; the number of public officials was reduced; a law creating a new bank of issue was passed; and a forced loan was authorized. The good effect of these measures was, however, considerably reduced by the increasing volume of the note circulation and the continued heavy borrowing of the government from the old central bank.

In other respects, little progress was made during the last half of 1921. Although many of the Allied governments had responded promptly to the request of the Reparation Commission to release the liens against Austrian assets in order to free them for a new foreign loan, the negotiations with the remaining governments proceeded slowly. It seemed as if they were marking time until the Porto Rosa Conference could meet and lay the basis for economic revival. When that Conference finally

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brought together, in November, the representatives of the succession states of the old Austro-Hungarian Empire, the result was a series of pious wishes expressed in a Protocol which all signed. The first article read:

> The governments . . . shall as soon as possible take the steps necessary to re-establish freedom of imports and exports in the relations between their several countries. In any case, they shall abolish all import prohibitions and restrictions on July 1st, 1922 at the latest and shall before that date make arrangements among themselves to fix, by common consent, a date whereon all export prohibitions, controls, or other restrictions affecting the exportation of any merchandise shall be abolished. It is agreed, moreover, to avoid customs legislation which would establish customs duties or other taxes equivalent to actual export or import prohibitions.

Unfortunately, this plan was not ratified by a single one of the Powers whose representatives had signed it. Since the whole pre-war system of commercial treaties had been shattered, the countries in that part of Europe were left in a situation in which the application of maximum tariff duties was the rule rather than, as in pre-war days, the exception; in which the legal protection against tariff discrimination, embodied in most favored nation clauses, had disappeared; and in which foreign trade was exposed to new formalities and regulations which had grown up since the war. Austria concluded a series of trade agreements with her Danubian neighbors in this period, but since they were all in the nature of quota arrangements, they did not really free her trade but merely stabilized the restrictions to which it was subject.

The failure of the Porto Rosa Conference intensified the difficulties in which the Austrian government found itself. Its credit position became steadily worse during these months, and by February of 1922 was so serious that a complete collapse seemed inevitable without immediate assistance. In this crisis Great Britain advanced £2,250,000 (of which £250,000 was used to repay an earlier advance) and Czechoslovakia advanced 500 million Czech crowns. France agreed to advance 55 million francs and Italy 70 million lira, although the actual paying over

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of these sums was delayed. All of these loans were secured by assets released by the Reparation Commission for the purpose, such as the Gobelin tapestries in Vienna. The British further stipulated that the expenditure of the funds they provided was to be controlled by Mr. G. M. Young, representing the British Treasury in Vienna.

In spite of these advances, the credit of Austria did not improve, and the value of the Austrian crown fell steadily. From its pre-war value of about one Swiss franc, it had fallen to

5.67 crowns per Swiss franc,	July 1, 1919
27.02	July 1, 1920
122.	July 1, 1921
3,600.	July 1, 1922

The Vienna Bourse was closed in June 1922 because of the foreign exchange panic, and in August, when the crown had fallen to less than half of its June value, the central office for foreign exchange also had to be closed.

In this crisis, the Austrian Minister of Finance again appealed to the Supreme Allied Council through Mr. Lloyd George, the British Prime Minister, asking if the Allied governments would be willing to guarantee a loan of five millions of dollars, as otherwise it would be impossible for Austria to obtain funds through banking channels. The Council decided that this would not be possible, and again referred the matter to the League of Nations. Chancellor Seipel had in the meantime been discussing the possibility of trade agreements with Premier Beneš of Czechoslovakia and with the government in Berlin. He found himself blocked in these endeavors by the Allied governments, who, while unwilling to take any positive action themselves, were even more unwilling to have Austria enter into any arrangement with Germany or the Little Entente. Italy and France went so far as to withhold the payment of the credits they had earlier agreed to advance, until they had received assurance that Austria would make no commitments without their consent.

The power of France and Italy over Austria was due not only to the financial crisis, but also to the clause in the Treaty of

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St. Germain (Article 88) which forbade Austria to change its status without the unanimous consent of the member nations in the League of Nations—a clause which, according to Tardieu, had been inserted in the Treaty at the insistence of France. This power was exercised not only in the matter of trade agreements, but also in the reorganization of the bank of issue. The two largest Austrian banks, the Anglo-Austrian Bank and the Bank of the Austrian State, had been converted after the war into English and French corporations respectively. Chancellor Seipel, in a bitter speech before the League of Nations Assembly in September 1922, declared that these two banks had blocked the securing of foreign capital by Austria and had held up the negotiations until the statute of the new bank was drawn in a form which suited their requirements and protected their interests. He ended his speech with another impassioned plea for the freeing of trade: "Austria must be saved from the artificial shackles imposed upon her traffic and commerce, shackles which neither the Brussels Conference nor the Porto Rosa decisions were able to break. It is not here a question for Austria alone, but for the whole of Central Europe." [1]

Although the Allied governments were unwilling to heed the plea for the freeing of trade between Austria and her neighbors, they were willing to take other measures to assist her. This second appeal to the League brought about the appointment of a special committee on Austria consisting of Dr. Beneš of Czechoslovakia, Lord Balfour of England, M. Hanotaux of France, Marquis Imperiali of Italy, and Chancellor Seipel of Austria. Sitting with the Financial Committee of the League, this group worked out details of a plan which included not only financial and fiscal reforms, but also proposals for the separation, from the general budget, of state-owned industries like the railroads. There was also to be a reduction in the number of state employees, since the new republic with a population of six millions had a longer public payroll than that of the old empire with its population of fifty millions.

It was estimated that a two-year transition period would be

[1] League of Nations, *Assembly Journal*, 1922, vol. III, p. 25, September 6.

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required to bring the budget into balance, and that, during this period, the deficit would amount to 520 million gold crowns. To meet this sum, and to cover the 130 millions already owed, a loan of 650 millions would be necessary. The servicing of a loan of this size would require about 70 millions annually for interest and amortization, an amount which could be provided by the income from state forests and domains, from salt and tobacco monopolies, and from customs duties. This committee, like the preceding one, took pains to stress that

> Behind the problem of financial and budget reform remains that of the fundamental economic position. Austria cannot permanently retain a sound financial position . . . unless her production is so increased and adapted as to give her (with her "invisible exports") an equilibrium in her trade balance as well as in her budgets. . . . All possible measures, whether by the amelioration of international economic relations, the encouragement of the conditions which would increase Vienna's *entrepôt*, financial and transit business, and of those which will attract further private capital towards the development of her productive resources, are therefore of the greatest importance.[2]

The proposals of the committee were embodied in three Protocols signed at Geneva on October 4, 1922 by representatives of the governments concerned. In the first of these, the signatories agreed to "respect the political independence, the territorial integrity and the sovereignty of Austria," and Austria reaffirmed her acceptance of Article 88 of the Treaty of St. Germain. In the second, the Austrian government surrendered all right to issue paper money or make other loans, in return for the guarantee of the 650 million crown loan by the following Powers: Great Britain, France, Italy and Czechoslovakia each twenty per cent; the remaining twenty per cent to be divided among all the signatories. The third Protocol set out in detail the reforms to be undertaken by Austria in preparation for the loan, and the functions of the Commissioner-General to be nominated by the League, who was to work closely with the Austrian government and the Committee of Control of the Guaranteeing

[2] League of Nations Official Publications C. 568. M. 232. 1926, II, p. 20.

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Governments, in supervising the expenditure of the funds provided.

Before these Protocols were presented to the Austrian Parliament for ratification, it was necessary to make sure that such action would be constitutionally binding upon any future government which might come into power. This was accomplished by the passage of a Constitutional Law establishing a Cabinet Council of certain Ministers and twenty-six members of the National Council, who would have veto power over any measures not authorized by the Reconstruction Law which embodied the provisions of the Protocols. The Reconstruction Law was finally passed in December 1922.

The Austrian government started immediately to carry out the first of the reform measures. By March 1923 the Treasury had succeeded in reducing its deficit by a forced loan of 18 million gold crowns and by a 50 million crown issue of short-term Treasury notes sold to bankers and the public. More important still, the Treasury had stopped borrowing from the central bank, and the increase in the note circulation had been stopped.

The organization of the new Austrian National Bank in January 1923 was an important part of the financial reform. Public subscription to its shares provided a capital of 30 million gold crowns, and in addition it had a modest reserve of foreign exchange. To it was transferred the business of the Austrian branch of the old Austro-Hungarian Bank. The new Bank was protected from political interference by the provisions that directors were to be elected by the stockholders, that its operations were to be purely commercial, and that the state, the provinces and the communes of Austria should not borrow from it without full collateral in gold or foreign securities. In this way the Bank was protected from demands for further loans to the Treasury, and the Treasury was obliged to balance its budget and stop the inflation in the note circulation.

The Bank was successful in stabilizing the Austrian crown, by linking it first to the Swiss gold franc, and later to the dollar at the rate of 71,000 per dollar. This rate was maintained during 1923, and the reserve of gold and foreign exchange was

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built up from the required twenty per cent to fifty by the end of 1923, and to sixty by the middle of 1926. This satisfactory result was achieved in spite of the banking and stock exchange crises of 1924, when the Austrian National Bank was obliged to enlarge its loans to the commercial banks in order to carry them through the panic, borrowing from the Commissioner-General in order to do so. The Bank also assisted in carrying out the new currency legislation of September 1924, by which the schilling was substituted for the depreciated crown at the rate of 10,000 crowns to the schilling, first as a currency of account, and finally as the currency in actual circulation. Since the schilling was given a legal gold value, the Bank was freed from the necessity of keeping it tied to the dollar, and after August 1925 the foreign exchange reserve of the Bank ceased to be of special importance.

The success of these reform measures began to be apparent very quickly. As early as February 1923, the credit of the government had so improved that it was possible, with the authorization of the League Committee, for Austria to borrow 3.5 million pounds abroad in the form of one-year Treasury notes at 7½ per cent, guaranteed by five governments which deposited their own bonds as collateral with the *Banque Nationale de Suisse*. These funds enabled the Austrian Treasury to carry on while the preparations for the long-term loan were under way.

The success of this first short foreign loan paved the way for the larger and longer loan which was to be the mainstay of the reconstruction plan. The guarantee of the coöperating governments again took the form of a deposit of their own bonds with a Swiss bank. The two Trustees for the bondholders were appointed by the League of Nations, and the fact that the loan was being arranged under the auspices of the League was prominently mentioned in the prospectus. In the United States, the firm of J. P. Morgan headed the group of bankers who were underwriting the dollar *tranche*. In Paris, at the request of the Minister of Finance, the *Banque de Paris et des Pays-Bas* organized a banking consortium, and similar groups were formed in London, Stockholm, Amsterdam, Vienna, Brussels, Switzerland

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and Rome. The rates varied somewhat in the different centers, ranging from 6½ to 7 per cent, but the loan was oversubscribed in one country after another as it was offered during the summer. In many places the holders of the short Treasury notes of earlier issues converted them into the new bonds.

From this time on the improvement in the Austrian situation was marked, although it did not proceed without continuous effort. The monthly reports of the Commissioner-General trace in detail the progress being made: reorganization of the railroads, decline in unemployment in spite of the gradual reduction in the number of state employees, and increase in Treasury revenues. Capital funds began to return to Austria, with an attendant increase in the volume of bank deposits. Interest rates remained high (they still ranged from 25 to 50 per cent at the end of 1924 because of the deflation) but the currency was held nearly stable. By the last quarter of 1925, the special report made to the League Financial Committee by Mr. Layton and M. Rist indicated so much progress that the Commissioner-General was released from the obligation to live in Vienna. The League, however, retained the right to send him back at any time within ten years, if it seemed necessary, and decided that the adviser to the National Bank should continue in office for another three years.

The Committee again pointed out that, if this favorable situation was to become permanent, it was essential that "commercial agreements of the closest possible character" must be made between Austria and the succession states. In spite of the general recognition of the need for elimination of trade restrictions, little was accomplished. Austria restored free foreign exchange in March 1925 under an agreement approved by the League. Trade negotiations between Austria and Czechoslovakia in 1925 broke down largely because Italy insisted on being a party to any preferential agreement which was made; the result was that Austria increased her tariff and then granted slight concessions to both countries. New treaties were made with most of the other neighboring countries in the years between 1925 and 1927, but they modified only details for the most part. The Central

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European Economic Conference, held at Vienna in September 1925, resolved that it "considers as one of the principal evils of the central European economic situation, the continuing isolation of the economic system of small States," and proposed a permanent commission to deal with the problem, without result. The Geneva Conference of 1927 apparently abandoned the hope of generally freer trade, and protested chiefly against the frequent revision of tariff rates.

Although Austria's foreign trade balance during these years showed little improvement, she was able without difficulty to meet the interest and amortization charges on her foreign loan. However, Austria, as well as the rest of Europe, was being adversely affected by the general decline in foreign trade in the late twenties. In an effort to stop this decline, Austria and Germany, early in 1931, agreed on a customs union, but the announcement threw their European neighbors into a fury of protest. The question was referred to the League of Nations, and then to the World Court, which decided that any such arrangement was a violation of the Geneva Protocols of 1922. In the meantime, the Austrian situation had deteriorated to such a point that the Chancellor felt impelled to write to the League Council, asking it to undertake an examination into the economic and financial difficulties of the country and to recommend measures for remedying them. The recommendations of the Financial Committee to Austria included new commercial negotiations with neighboring states, but by that time Austria had abandoned hope of increasing her exports by treaty arrangements, and had decided on the prohibition of imports in a desperate effort to stop the drain of foreign exchange.

By June 1932, the difficulty of securing foreign exchange forced the Austrian government to suspend transfer of the funds for servicing its foreign debt, and to pay instead into the Trustees' account only enough schillings to cover the service of the loan at the official Austrian rate of exchange. The Trustees had enough foreign currencies in reserve to make good the deficiency for six months, so that the coupon due on December 1, 1932 was paid in full. Fortunately, the exchange position improved

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sufficiently during 1933 to make it possible for the Austrian government to reconstitute the reserve fund by purchasing foreign currencies at a premium in the private clearing market. The bondholders, therefore, continued to receive interest payments, and the guarantor states were not called upon. During the early part of 1935, a fall in interest rates made it possible to convert the old loan into a new one, guaranteed by the same nations in the same proportions, bearing interest at 4½ to 5 per cent. Bondholders who did not accept the conversion offer were repaid in full as of June 1, 1935.

Technically speaking, the League Loan to Austria was a success, since it did not end in default. But it was also successful in a more important sense, because it provided the basis from which Austria was able again to become a productive economy. Sir Arthur Salter, in summarizing the Austrian experience for the League of Nations, concluded that its good results were due to the fact that the plan under which the loan was made had been a comprehensive one, covering not only the budget but also the banking and currency of the country, and that the machinery for carrying out the plan had been equally comprehensive. The Austrian plan was successful in still another sense, for it set the basic pattern which was followed in other countries. None of the other cases was quite so serious as the Austrian, but the techniques developed for her were applicable in greater or less degree to the situation of other countries in need of foreign funds.

But, remarkable as was the success of the Austrian League Loan from the short-run point of view, in the long run it was a failure because it could not forestall the economic débâcle of the nineteen-thirties. This was not the result of any lack of foresight on the part of the formulators of the plan. They saw clearly, and said clearly, that the plan could not possibly be a permanent solution to the difficulties of Austria unless it was complemented by the freeing of trade. That this was prevented by pressure groups and power politics, originating in the same countries which had provided the financial experts of the plan, is a tragic paradox.

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The Hungarian Reconstruction Loan

The League Loans floated by Hungary were similar to the Austrian in many respects. Hungary was the other principal segment of the old Austro-Hungarian Empire, and suffered with the rest from the breaking down of former economic ties. Since Hungary, however, was primarily an agricultural country, there was less actual distress among the people during the first years after the close of the war, than among the people of Austria; and the total of relief credit was only one-half million pounds, or roughly one fiftieth of the amount obtained by Austria.

The relief credits obscured for a time the basic economic difficulties of the country, but, by the end of 1922, it was clear that fundamental measures were needed. The currency, which had been almost stable throughout 1921 and 1922, began to decline in terms of the pound and the dollar, reflecting the declining credit of the government. In April 1923, the Hungarian Minister of Finance requested the Reparation Commission to release its liens on Hungarian assets so that they might be freed to serve as security for a loan obtained in the international market. The Commission refused to consider this until a specific loan was in prospect. During May and June, an attempt was made to arrange a loan from banking firms, but this was found to be impossible in the existing state of Hungarian credit.

Count Bethlen, the Hungarian Premier, thereupon approached the League Financial Committee which was meeting in Paris, and asked for their assistance in obtaining 50 million gold crowns on short term, and an additional 600 million gold crowns on long term, the gold crown being worth about twenty cents. He pointed out that Hungary had always paid promptly the interest due on the relief loans of 1920 and 1921; that the government had already made some progress in reducing the number of state employees in order to balance the budget; and that it had begun to develop the sugar beet and coal resources of the country. Hungary was quite willing to submit to controls like those imposed by the League on Austria, in order to obtain a guarantee of the loan.

The Financial Committee realized that Hungary's political

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problems would have to be solved before there was any possibility of economic stabilization. At the September meeting of the League Assembly, therefore, representatives of Czechoslovakia, Rumania, and the Kingdom of Serbs, Croats and Slovenes were persuaded to meet with Hungarian representatives and settle some of the minor but pressing differences which had been jeopardizing the peace of that part of Europe. With that accomplished, the Council was willing to consider financial reconstruction, and in November a commission of four experts was dispatched to Budapest.

The experts' report was presented to the Financial Committee in December. It pointed out again that stable relations with her neighbors in southeastern Europe were essential to Hungarian recovery, and that Hungary must obtain a settlement with her foreign creditors before a new foreign loan could be undertaken. Once those conditions were met, the experts recommended that the Hungarian currency should be stabilized and exchange controls eliminated; that a new national bank should be established with a monopoly of note issue, in order to stop the issue of fiat paper by the Treasury; that the budget should be brought into balance by the fiscal year 1926; and that a reconstruction loan of about 250 million gold crowns should be floated. The League would sponsor the loan and would appoint a Commissioner-General to supervise expenditure of the funds provided by it. The Protocols embodying these recommendations resembled the Austrian Protocols which had been signed in September of that year; Hungary also agreed to abide by the military clauses of the Treaty of Trianon. The Reparation Commission thereupon agreed to release its liens on reparations accounts, and this was formally done on February 21, 1924. In addition, all payments under the peace treaty were reduced to a total of ten million gold crowns annually for a period of twenty years. The countries which had given relief loans to Hungary released their liens also, and the way was finally clear for a new international loan.

While negotiations with the bankers were going on, the government took steps toward carrying out the domestic reforms

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which had been agreed upon. The Protocols were ratified by the Hungarian Parliament in the Reconstruction Law of April 17, which gave full power to the government to complete the reforms without further recourse to Parliament, thus protecting the scheme from the danger of a change in the party in power. The Law provided for a reduction in public expenses which would enable the budget to be balanced at 400 million gold crowns per year, and a forced loan was authorized in order to provide 600 billion paper crowns to tide the Treasury over the transition period. At the same time, a new bank of issue was created with a capital of 30 million gold crowns raised largely abroad. It was given a monopoly of note issue, was forbidden to make advances to central or local governments, and was provided with a board of directors made up of representatives of agriculture, commerce, industry and commercial banking, thus making it as independent as possible of political control. An Advisor named by the Commissioner-General was appointed to aid the new Bank during the reconstruction period. The Bank began its operations in June 1924 and immediately stabilized the paper crown at 346,000 to the pound sterling and abolished most of the foreign exchange controls.

The organization of the Bank made it possible to bring to a successful conclusion the negotiations for the foreign loan, which had been delayed by the crisis at the Vienna Bourse during May and June 1924. The total of the loan was set at 254 million gold crowns, about 14.2 million pounds sterling, to run for twenty years, at 7½ per cent. Subscriptions were opened in Great Britain, the United States, Italy, Switzerland, Czechoslovakia, Holland, Sweden and Hungary at prices varying from 80 to 86.8. The bonds were secured by a first lien on customs duties, sugar taxes, and tobacco and salt monopolies, and further revenues were to be assigned to the bonds if the yield of these ever fell below 150 per cent of the amount necessary for interest and amortization. A reserve fund equal to six months' complete service of the issue was to be held in the form of foreign currencies by the Trustees appointed by the League. It is noteworthy that, in the case of this Hungarian loan, it was not found

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necessary to have specific guarantees by Allied governments such as had been given in the case of the Austrian loan.

The situation in Hungary improved rapidly after 1924. Most of the remaining import restrictions were removed late in the year, although tariffs were still at excessively high levels. The reserves of the National Bank increased steadily, in spite of the increasing note circulation. The Bank raised its rediscount rate from 10 to 12½ per cent late in 1924, which was still far below the rates prevailing at most of the commercial banks. One fortuitous outside factor which aided Hungary at this time was the rise in value of the pound sterling ratio to the dollar, thus carrying up the gold value of the Hungarian crown, and tending to restrict credit expansion. During 1925, the reserve percentage of the Bank continued to rise, going from 45 to 60 per cent of demand obligations, and the discount rate was again lowered until it stood at 9 per cent. These changes reflected the improvement in the budget, which by the end of June 1925 showed a surplus of 90 million gold crowns in place of the previous deficit of 100 millions.

The revenues assigned to the loan proved to be more than sufficient, in some years amounting to six times the required amount, until the general breakdown of international trade and foreign exchange in the nineteen thirties. During 1934, 1935 and 1936 one half of the interest was transferred, and the rest was deposited in blocked accounts in Hungary. Sinking fund payments were entirely suspended during these years, although Hungary always recognized the special claims of the League Loans. In 1937, Hungary proposed a permanent settlement of the service of the loan on the basis of 60 per cent of the interest, with a sinking fund to be accumulated from 1940 on. The League Loans Committee, representing the interest of the bondholders, recommended to them that this proposal be accepted as the best that could be expected in view of the large foreign debt with which Hungary had burdened herself between 1924 and 1930. Arrangements continued on this basis until Hungary, in October 1940, regretfully informed her creditors that it was impossible to obtain sufficient foreign exchange to carry

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out her agreement. Separate arrangements were thereupon made with the creditors of each country.

In spite of the ultimate breakdown of payments on this loan, it must be considered to have been a success on several counts. Like the Austrian loan, it provided the funds with which the government was able to initiate a whole series of reform measures, none of which would have been successful had not all the others been in process at the same time. As in the case of Austria, the final breakdown came, not from any factor peculiar to the one country, but from the general failure to restore the channels of international trade after the First World War, and from the increasing impediments to international exchange as each nation in turn tried to protect itself from the effects of the impediments set up by its neighbors. No international financial mechanism, however well devised or well intentioned, can cope with the fundamental imbalance created when nations refuse to trade with each other.

The Greek Refugee and Stabilization Loans

A type of financial problem quite different from that of Austria and Hungary was faced by Greece when refugees began to stream into the country from Turkey, following the defeat of the Greek armies in Asia Minor in 1922 and the signing of the Convention of Lausanne in 1923. The League of Nations took an active interest in the problem from the first, not primarily because of its financial aspects, but because of the possible political effects on the other Balkan states if Greece were not able to handle the problem adequately. Dr. Fridjof Nansen was therefore requested to study the problem for the League at first hand, and to make recommendations. He reported in November 1922, to the League Council, that the situation of the refugees was acute, and that funds were needed immediately to get them established on farms and in trades where they could be self-supporting.

Although Greece was a relatively poor country, its financial position had not been unsound and, alone among the Balkan countries, it had maintained gold interest payments, both during

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and after the war, on its pre-war foreign debt of 41 million pounds sterling. In 1918, this debt had been increased by a loan from the United States, Great Britain and France of 5.5 million pounds sterling, and in 1922 by a loan of 15 million pounds from England on condition that it be spent for British products. The drachma which before the war had been worth 19.3 cents, or 25 to the pound sterling, had fallen to 450 to the pound by March 1923, but then recovered and remained at a figure between 246 and 287 during the year 1924. This inflation was not as serious as that of Austria's but it made budgetary equilibrium impossible, and necessitated outside assistance during the period of heaviest influx of the refugees.

In February 1923, following the report of Dr. Nansen, the Greek government made a formal request to the League for its moral support and technical assistance in obtaining a foreign loan. The League turned to its Financial Committee for aid in the planning of the loan, and appointed a special Sub-Committee on Greece to prepare settlement plans for the refugees and supervise the expenditure of the funds through the loan. Two members of the Financial Committee went to Athens to confer with the Greek government, and made their report in June 1923. This report stressed the fact that, before foreign lenders would be willing to advance funds to Greece, the budget would have to be brought nearer to equilibrium, and the inflation stopped; the claims of prior lenders, especially those of the United States, France and Great Britain in connection with the loan of 1918, would have to be released; the peace treaty between Greece and Turkey would have to assign to Greece indubitable ownership of the lands which Greece was planning to use as security for the loan; and, finally, any engagement entered into by the existing government would have to be made legally binding upon any future government.

If these conditions were met, the Financial Committee was willing to recommend a loan. The estimates of the revenues available to service the loan varied widely, that of the Greek government being considerably more optimistic than that of the Financial Committee, but, since even the lower figure seemed

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to be sufficient, the negotiations were allowed to proceed. The League Sub-Committee on Greece approved the reports of the technical and the financial experts in July, and a Protocol embodying their recommendations was drawn up and signed at Geneva in September. Under its terms, Greece agreed to establish a Refugees Settlement Commission, two members to be appointed by Greece and two by the League; to assign to this Commission at least 500,000 hectares (about 1,250,000 acres) for purposes of resettlement; and to raise a foreign loan of which the expenditure would be in the hands of the Commission, and the servicing in the hands of the International Financial Commission which had been created in 1898 to handle the earlier loans. The revenues assigned to the loans were obtained from the salt, match, card, and cigarette paper monopolies of New Greece, the customs duties from certain provinces of Greece, and the alcohol tax in all of Greece. There were no prior liens on any of these revenues. Moreover, certain other revenues, such as the tobacco tax in New Greece, although already assigned against the 5½ per cent loan of 1922, were expected to yield a surplus which would be available for the new loan if the others should prove insufficient. The loan was to be amortized at the rate of one-half of one per cent per annum, and any sums collected from sales of lands and in repayment of debt by the refugees would be used to retire an additional amount of the loan.

The progress of the negotiations being carried on with London bankers was delayed by the political instability during the latter part of 1923, and by the preparations for the plebiscite of April 1924. Even the ratification of the Protocols by the Greek Parliament was delayed until June 1924. To enable the Commission to start on its urgently needed work, temporary advances were made to it, of one million pounds sterling in November 1923 and another million in May 1924 by the British government, and a third million by the National Bank of Greece in July. The contract for the twenty-year loan was finally signed, and the loan was offered during December 1924 at about 88, to yield 7 per cent. It was handled in London by Hambro's Bank, Ltd., in New York by Speyer and Company, and in Greece by

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the National Bank. The loan was heavily oversubscribed in all of these centers, a circumstance which must be ascribed in part to the prominent featuring of the League's assistance and approval.

The revenues assigned to this loan proved to be more than ample from the start. The general position of the Greek Treasury was also improving, and by 1925 the budget had been brought into balance and progress was being made in the reduction of the floating debt. On the other hand, the note circulation was still high, foreign exchange operations were still under control, and there were still restrictions on imports which hindered a return to normal foreign trade relations.

As part of the original plan for stabilization preliminary to the loan, it had been proposed to reorganize the National Bank of Greece into a modern central bank with a monopoly of note issue and no commercial banking functions. Before this plan could be got into operation, the National Bank had begun to make loans to refugees, and had developed techniques and personnel for this necessary activity. Between July 1924 and December 31, 1925, the Bank loaned 138 million drachmae to twenty-two thousand small traders and artisans, many of them in the reviving rug industry. The repayment record on these loans was excellent, and, rather than interfere with this business, it was decided that the National Bank should be allowed to continue as before, and that an entirely new bank of issue should be formed.

The Bank of Greece was accordingly authorized by an Act of the Greek Parliament of November 25, 1927. Its capital was made up of funds transferred from the National Bank, consisting of gold and gold exchange, gold and silver coins, gold bonds of the Greek government, and other government bonds. The new Bank was given the monopoly of note issue and the duty of stabilizing the exchange; even more important, it was to act as fiscal agent for the Treasury in order to centralize all of its receipts and payments.

The funds provided by the loan of 1924 had not been sufficient to furnish the capital for the new bank, nor even to com-

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plete the work of refugee settlement. A new loan, the Stabilization and Refugee Loan of 1927, was therefore floated in much the same way as the earlier loan. Sir Henry Strakosch, for the Financial Committee of the League, approved the loan contracts and the terms in which the loan prospectus made reference to the supervision of the League of Nations. The Protocol was signed on September 15, 1927, and the loan was actually issued in February 1928, at 91, with six per cent interest, to run for ten to forty years. It was to be serviced from the free revenues of the assets already in the hands of the International Financial Commission.

The nine million pounds raised through this new loan were divided about equally among the budget arrears, the work of refugee settlement, and the paying off of the old government debt which had been taken over by the new Bank of Greece from the old National Bank of Greece. The new Bank was thus provided with liquid assets, and began to function in May 1928, with a reserve of 53 per cent in gold and foreign exchange against its notes and deposits. After this time, the currency was held stable until 1932, at about 1.3 cents per drachma. The refugee problem was also brought to a conclusion, as far as League supervision was concerned, by the liquidation of the Refugees Settlement Commission at the end of 1930, when the Greek government took over all of the clinics, hospitals and other properties which it had administered.

The International Financial Commission continued to function, since the foreign loans were still outstanding. Revenues for these loans remained ample until the general difficulties of foreign exchange transfers affected the Greek currency as it had so many others. After April 1932, the coupons due in foreign currencies were not again paid in full, but only in fractional amounts varying from 27½ per cent to 60 per cent. The Greek government did not repudiate these loans, but merely expressed its regretful inability to obtain the necessary foreign exchange. The German invasion of 1941 necessarily put an end even to the fractional payments, although the Greek government in London continued to recognize its full obligation for interest and amortization.

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The failure of these loans, in the technical sense, can hardly be ascribed to any lack of precaution on the part of the League, or to any bad management on the part of the Greek government. The tying of the drachma to the pound sterling, when the pound was itself so precariously tied to gold, may have been injudicious, but was almost inevitable in view of the close relations between the Greek and British governments.

The Danzig Loans

Because the Free City of Danzig had been created by the Allied and Associated Powers out of territory renounced by Germany in the Treaty of Versailles, it had been considered from the beginning as the special responsibility of the League of Nations. The League appointed a resident High Commissioner to deal with differences which might arise between Danzig and Poland, and to supervise any foreign loans it might make. It was quite in accord with this attitude that the unsatisfactory state of Danzig public finances in 1921 should bring a request from the Council of the League to the Financial Committee to make an investigation, although the Council was careful to add that "such enquiry does not indicate any intention of the Council to promote the direct provision of financial assistance to the Free City."

Two members of the Committee, MM. Avenol and Janssen, went to Danzig in October 1921, and made a report to the Council early in 1922. They found that the City had too many officials; that the general expenditure was too heavy, and that economies could and should be effected. They disapproved the request that Danzig be permitted to rediscount its Treasury bills at the German Reichsbank (whether on economic or political grounds was not made clear) and recommended instead that six to twelve months' Treasury notes in a stable foreign currency be issued as a first step toward adoption of a new currency. With this accomplished, the investigators would recommend that the costs of occupation by the Allied Powers should be lightened, and that the price paid by the City for property taken over from Germany should be reduced. The Council consid-

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ered this report, but, since it was unwilling to bring any pressure to bear upon Danzig, no action was taken and the possibility of a loan was not further explored.

During 1923, the High Commissioner of the Free City, Mr. MacDonnell, discussed with the Council the urgency of the need for currency reform. The Financial Committee recommended that Danzig should not accept either the old Polish mark, which was too unstable, or the new Polish gold zloty, which had not yet reached full acceptance even in Poland. The German currency at this time was in the last throes of inflation and was not even considered as a possibility for Danzig. The one other continental currency which might have been used in Danzig, the Swedish, was rejected on the grounds that commercial relations with Sweden were not of sufficient importance to justify the adoption of the Swedish crown. It was therefore recommended by the Committee that the pound sterling be taken as the unit to which the Danzig currency should be stabilized, since this would bring "almost immediate financial support". The representative of the Polish government in Danzig agreed to this, and it was agreed also that Poland and Danzig would accept each other's currency, since the new Danzig gulden was to be 7.322 grams of fine gold, almost the same value as the Polish zloty, about one twenty-fifth of the pound sterling. The Currency Law of November 1923 provided that only the government was to mint the new coin, and that prices in Danzig were thenceforth to be quoted in gulden and pfennigs.

At the same time, a new bank of issue was established, with a capital of 7,500,000 gulden subscribed by private capitalists, including a consortium of Polish banks. This Bank, like all of the central banks established under the guiding hand of the League Financial Committee, was forbidden by its statutes to discount Treasury bills, and was specially charged with the maintenance of a reserve in gold and foreign exchange against its notes and deposits. The Bank was also given a monopoly of the note issue.

With the reform of the currency and the establishment of the bank of issue, the financial situation of Danzig improved suffi-

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ciently during 1924 to make possible the flotation of the long-desired foreign loan early in 1925. The British Overseas Bank, and Halbert, Wagg and Company of London, handled the issue, but insisted on the association of the League of Nations with the loan in order to make it a success. Although this loan was of quite a different character from those to which the League had previously given support and approval, the Financial Committee recommended League participation on the grounds that Danzig had been placed under the special protection of the League, and that the League had "a very special interest in the fortunes of Danzig." The contract between the bankers and Danzig therefore required that, in case of a breach of any of its terms by the borrower, the Trustee appointed by the League would appeal to the Council, and if the appeal was upheld by the Council, the principal and the interest would become immediately payable in full and the collateral securities might be taken over. On the other hand, in case of any dispute involving the Trustee or the bankers with the municipality, the City agreed to abide by the decision of the Council or its representative. With the terms of this contract made public, the loan met with complete success when it was offered in London. M. ter Meulen was appointed Trustee for the League. The funds thus provided were used to complete the Radaune waterpower electric works and to extend the municipal gas works, improve the harbor, and develop a new residential and industrial district. A first mortgage on these properties made out in the name of the Trustee served as security for the loan, which was issued at 7 per cent for twenty years, to yield about £1,500,000.

Two years later, a second loan under League auspices was floated by Danzig, this time to provide for the refunding of the floating debt, to meet the payments to the Reparation Commission and to construct dwelling houses. This loan was secured by a first charge on the state tobacco monopoly and an excise tax on spirits; it bore 6½ per cent interest, matured in twenty years, and was issued at about 90 to yield £1,520,000 from the British *tranche* and £380,000 from the Dutch.

Both loans maintained interest and other payments until the

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early months of 1932, when the price fell to less than half of their par value. By 1935 the improvement in the exchange position had raised the price almost to par again, but this favorable situation was short-lived, and it soon became apparent that in the existing international situation no permanent recovery could be expected. Two representatives of the Free City informed the League Loans Committee in London in July 1937 that it would be impossible to continue to service the loans at the contractual rate of interest, and proposed that the rates should be reduced to 5 per cent and 4½ per cent respectively on the two issues, and that the maturity dates should be extended for five years in each case. Similar measures had already been taken with respect to two internal loans, the 7 per cent Danzig Electric Tramway Loan of 1928 and the 6 per cent Match Monopoly Loan of 1930. The League Loans Committee agreed to these changes, to take effect at the end of 1937, and that was the situation which prevailed when the war began in 1939.

The Danzig loans are of special interest among the League Loans because they presented political combined with economic problems to an unusual degree. Before the loan providing harbor improvements could be floated, a Harbor Board consisting of both Poles and Danzigers had to be constituted; before the currency could be stabilized or the new central bank established, the approval of the Polish government had to be obtained. The Financial Committee had to act both as political mediator and as economic expert, and the financial difficulties were solved only because the political problems had been resolved previously. Moreover, the loans made to Danzig were devoted not to reconstruction but to economic development, and thus marked an extension into a new field of the use of League approval of loans.

The Bulgarian Refugee and Stabilization Loans

Bulgaria, a poor country even before the war, had been left at the end of the First World War with a burden of pre-war debt, largely held in England and in France, which she was

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unable to repay. Attempts to raise further sums in England during 1921 and 1922 were unsuccessful because of the poor credit standing of the country, which was not materially improved by the establishment in 1922 of a national bank so closely under government control that it served merely as an instrument for further Treasury borrowing and inflation.

The immediate crisis which brought about the appeal to the League arose from the presence of the refugees who ever since 1913 had been streaming into the country to escape from the disorder of bordering countries, especially Russia and Turkey. By 1926, their number was estimated at nearly a quarter of a million persons, in a country which in 1920 had had a population of less than five millions. The Bulgarian representative on the Council of the League wrote a letter in May of 1926 to the Secretary-General, suggesting that a foreign loan under the auspices of the League similar to that arranged for Greece might be a suitable solution. This suggestion was reënforced by a letter from the head of the International Red Cross, which had been attempting to relieve the needs of the Bulgarian refugees.

As a result of these requests, a member of the staff of the Commissioner-General of the League at Budapest, M. Charron, was sent to Sofia on a visit of a "private nature" to obtain preliminary information. On the basis of his recommendations, the Financial Committee of the League approved the project of a foreign loan up to £2,250,000, but made it clear that private banking participation in such a project could not be expected until certain difficulties had been removed. The holders of the pre-war bonds would have to be offered a satisfactory settlement in order to get their claims removed; a release would have to be secured from the Reparation Commission from the liabilities still owing to them; and the statutes of the National Bank would have to be modified in order to ensure monetary stability during the life of the proposed loan. At this point, a further objection was raised by the representatives of Rumania, Greece, and the Kingdom of the Serbs, Croats and Slovenes, who demanded, in a meeting of the Council, that the League maintain supervision over the expenditure of any funds secured by Bulgaria under League auspices, in order to make sure that they were actually

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spent for the benefit of refugees, and not for the construction of military roads.

During the summer months of 1926, these difficulties were systematically attacked. Visible progress by autumn made it possible for the Bulgarian government to obtain an advance of £400,000 from the Bank of England and the Bank of Bulgaria in order to start the work of refugee settlement at once before the proceeds of the long-term loan were available. The long loan was finally floated in December, at 7 per cent for forty years. Investors in Great Britain took £1,750,000; Holland, £250,000; Italy, £150,000; Switzerland, £250,000; and the United States, $4,500,000—a total of about £3,300,000, out of which the short loan was repaid. The work of refugee resettlement went on rapidly, and the revenues assigned to the loan proved to be ample during the next few years.

The financial reconstruction of the country did not, however, make satisfactory progress in spite of the favorable results of the loan. In September of 1927, therefore, the Bulgarian government asked the League Council to make a complete plan for the country, to include the banking system, the budget and the railroads. A committee was sent to Sofia and brought in its report in December. The government would not at first agree to the recommendations for changes in the statute of the National Bank, but by March 1928 the difficulties had been resolved and the Protocols were drawn up and signed at Geneva.

Under the new agreement the League recommended a foreign loan of £4,500,000; this amount was increased to £5,000,000 after the earthquake in the spring of 1928. The interest and amortization of this loan were to be met from customs duties, which had to be released by the inter-Allied Reparation Commission at Sofia and by the *Diskonto Gesellschaft,* a German bank to which the Bulgarian government had become indebted. These releases were obtained late in 1928, and negotiations for the loan proceeded rapidly. The conditions of the loan, the method of issue, the issue price, the rate of interest and amortization, and the expenses of issue, all had to be approved by the Financial Committee of the League, as well as the terms in which the loan prospectus referred to the League participation.

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Interest and amortization payments were met in full until November 1932. During 1933 only one half of the interest was paid and sinking fund payments were entirely suspended. The difficulty arose from the scanty supply of foreign exchange available. Although the balance of trade was favorable in the years after 1928, the actual volume of trade was so reduced by the combination of import restrictions and export price control, that there was little supply of foreign currency available with which to meet foreign debt service.

In March 1933, the Bulgarian Premier again asked the Secretary-General of the League of Nations to arrange an investigation, since the Treasury faced a probable deficit in the current budget and also had arrears from previous budgets. The remedies suggested by the Financial Committee included reform of the land tax, and reform of the method of assessing and collecting other taxes. But the principal recommendation was for a change in the government policy of hampering internal trade by minimum price restrictions, and of hampering external trade by the policy of import restrictions and the setting of lower prices on products exported than on those consumed at home.

Little attention was paid to these recommendations by the government which had already gone so far in the direction of a completely planned economy that it could not turn back. During 1934 only one third of the interest payments were made, and during 1935 and 1936, only one fifth. The League Loans Committee in London expressed its disappointment and dissatisfaction with the small proportion of the interest charges which was being met, in view of the fact that competent foreign observers believed that the Bulgarian government might have obtained more foreign exchange if it had made a more serious effort. The last payment was made on May 15, 1940, covering forty per cent of the interest.

Estonia

A brighter chapter in the history of League Loans was provided by the Estonian experience. This little country of less than two million population had been given its independence after the First World War, and was having some difficulty in

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adjusting its economic life to the new status. The separation from Russia, of which it had formerly been a part, had left it without commercial and financial connections and there had as yet been too little time to develop organizations of its own. Moreover, the revolution in Russia had destroyed Estonian working capital in the form of Russian bank deposits, and prevented the development of new trade relations in that direction.

Faced with these problems, although by no means in desperate straits, the Estonian government appealed to the League Council late in 1924 for advice on its financial and monetary situation. The League at once sent two delegates, M. Avenol and Mr. Loveday. They reported that the basic economic structure of the country was sound; eighty per cent of the population was engaged in agriculture; and the farmers were a highly literate group, with strong coöperatives. The estates of the Baltic barons had been divided up in 1920, so that there was no exploited peasantry. The principal industries were fishing, lumbering, cement and shale oil production. On the financial side the picture was equally hopeful. Budget equilibrium had been achieved in 1922, and maintained since that time. The fluctuations of the currency with respect to other gold currencies had been kept within narrow limits, from 343 to 375 to the pound sterling, since 1921. The reserve of gold and foreign exchange held by the central bank stood at forty-nine per cent of the note circulation.

On the basis of these findings, the delegates presented a report which was approved by the Financial Committee and adopted by the League Council, recommending a reorganization of the National Bank and the establishment of a separate mortgage bank. The Estonian government did not undertake to carry out these recommendations until late in 1926, when it asked for further advice and aid in drawing up the appropriate legislation, and in arranging for a foreign loan to provide the necessary funds.

This loan was to be secured by excise taxes on tobacco, beer and matches and paid into a special account to be admin-

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istered by a Trustee reporting to the League Council. No new loan secured by such revenues might be issued without the consent of this Trustee, and if the yield of these revenues ever fell below 150 per cent of the amount necessary to service the loan, additional revenues might be demanded. The conditions of the loan, the issue price, rate of interest, amortization, and the expenses of issue, negotiation and delivery were all to be submitted for approval to a person appointed by the Financial Committee of the League Council.

The actual contract for the loan was signed in June 1927 between the government of Estonia and the representatives of the British Foreign and Colonial Corporation associated with the London Joint City and Midland Bank, and of Hallgarten and Company of New York. The British firms took £700,000 of which they sold £200,000 in Holland; the Americans took $4,000,000 (about £821,912). With interest at 7 per cent, an issue price of 94½, and commissions of 5 per cent in London and 5¼ per cent in New York, the yield of the loan to Estonia was £1,361,600.

The financial reorganization which preceded the loan had been so carefully planned that the revenues provided were more than sufficient to service the loan. Even in the worst period of the international depression, in which many of the League Loans were in partial default, the Estonian revenues were 180 per cent of the required amount. During 1931, the price of the Estonian bonds in company with the other League Loans fell to a low point of about 36, but the Estonian loan, unlike many of the others, rose almost steadily after 1932 and by 1937 had again reached par. The later reports of the Trustee therefore found it unnecessary to give a detailed account of the economic situation of the country, but confined themselves to the simple statement of the ratio of the actual revenues to the requirements. By 1939, this figure was around 500 per cent, and no further comment upon the economic condition of the country seemed necessary. Estonia maintained the full service of her League Loan until July 1940, when the loan fell into complete default because of the incorporation of Estonia into the Soviet Union.

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Summary

The total of the nine loans to the six countries was only 81 million pounds, or somewhat less than 400 million dollars. Of this total, British investors provided nearly one half, the United States nearly one fifth, and the rest was divided among Italy, Switzerland, Czechoslovakia, Austria, Greece, France, Spain, Sweden, Holland, Belgium and Hungary. By 1935, in spite of the world-wide depression, one fourth of the borrowing had been repaid, and full service of interest and amortization was being maintained on another fourth. Although with half of the loans in default the record can hardly be viewed as a good one, it improves somewhat by comparison with some of the other international loans made during the same period, notably with those made by the United States to central European and South American countries, many of which fell into complete default long before the outbreak of the Second World War.

But the effectiveness of the League Loans should not be judged by the sums involved in either the loans or the losses. Both, it may be noted, were insignificant in comparison with the sums envisaged by the Bretton Woods Bank for Reconstruction and Development and by the Bretton Woods Fund. The importance of the League Loans derives from the methods by which they were made. The technique of financial reconstruction which was worked out in the case of Austria and applied in whole or in part to the other countries covered many aspects of economic life and formed a homogeneous whole. The first step in the formation of a plan for any particular country was a discussion in the League Council, a discussion in which the representative from the country participated as a full voting member. In several cases in which opposition arose in the Council on political grounds, these sources of difficulty were removed before any economic planning was undertaken.

If the Council authorized the Financial Committee to proceed, the next step was an enquiry on the spot, by expert investigators appointed by the Committee for the purpose. When their report was made, the Financial Committee went to work on the

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program for reform, always starting with the basic question of how best to stabilize the currency and eventually bring it to a gold basis. To solve this problem, they organized or reorganized a central bank, provided for the setting up of gold or of foreign exchange reserves, took steps for the establishment of a free exchange market, indicated how the budget could be brought into balance and the debtors of the country satisfied. In addition, they devised special instruments where they seemed necessary: an agricultural bank in Bulgaria, railroad reform in Austria and Bulgaria, and reform of Treasury accounting in Greece.

When the Financial Committee's plan was approved by the Council, it was embodied in Protocols which always provided that any difference in interpretation of the agreement was to be settled by the Council. The actual control of the Council was exercised by three types of appointees. In the plans for Austria, Hungary and Bulgaria, League Commissioners were named by the Council to serve as advisers, not administrators, and to make regular monthly or quarterly reports to the League. In the new or reorganized central banks, bank advisers were appointed by the governments on nomination of the League to serve as liaison officers between the bank and the Council. And to protect the holders of the bonds sold under League auspices, the League appointed Trustees in all cases except Greece, for which an International Financial Commission was already functioning. The guidance of the League was thus made effective throughout the life of the loan.

What is the moral of the League Loan experience for the administrators of the Bretton Woods Fund and Bank? On the one hand, it became clear, in the case of one country after another, that foreign capital, even when combined with internal budgetary and monetary reforms, is not by itself sufficient to restore to economic health an economy which is cut off from its neighbors by trade restrictions, tariffs, import quotas, exchange regulations and all their ilk.

On the other hand, in those cases in which something like normal economic relations with the outside world were possible,

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the League formula for financial assistance to a country proved to be of extraordinary value. The combination of strict budget control, central bank independence, and monetary stabilization created a situation in which foreign capital could be most useful in the work of rehabilitation and economic development. Without these supporting measures, the foreign credit would have served only to put the borrower more deeply into the morass of debt from which it was struggling to escape. Without all of these supporting measures, no single one would have been of use. It was the combination which was effective.

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THE EQUALITY OF STATES AS DOGMA AND REALITY

I. INTRODUCTION

THE equality of states is one of the most familiar and frequently reiterated principles of modern international law. Equality ranks traditionally with sovereignty and independence as an inherent and unimpeachable attribute of the state. As an infant nation the United States asserted the equality of states; as a great world Power, the United States concedes it. "Russia and Geneva", said Chief Justice Marshall in 1825, "have equal rights." It has been argued that sovereignty, independence and equality are absolutes; they exist or do not exist, just as a figure either is a circle or is not a circle. Nevertheless the terms "semi-sovereign" and "semi-independent" have a wide currency in the books which is not matched by any such term as "semi-equal". Dickinson, in his magisterial book on the subject, makes a useful distinction between "equality before the law" or "equal protection of the law" which is a matter of status, and "equality of capacity for rights". "Equality before the law is absolutely essential to a stable society of nations", according to Dickinson. "If it is denied the alternatives are universal empire or universal anarchy." But equality of capacity for rights is not in his opinion essential to the reign of law. "It has never been more than an ideal and among states its utility even as an ideal is limited. . . .Conceding that equality of capacity for rights is sound as a legal principle, its proper application is limited to rules of conduct and to the acquiring of rights and the assuming of obligations under those rules" of international law.

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There was a period in which the doctrine of equality of states had to make its way as the national state emerged in Europe out of the collapse of the Empire; but for a century at least statesmen and international politicians have been able to assert the existence of the principle without fear of verbal contradiction but with some certainty that while equality is preached, inequality will be practiced. The international problem of equality is the result of the coexistence of two facts: states are not factually equal, for their powers differ; states have "feelings" and the psychological factor cannot be ignored any more than the power factor.

Power may be overcome by superior power or checked by an equivalence of power. From this principle there has evolved, in the interest of maintaining the peace, the plan of the balance of power. Power may be surrendered and from this principle stem plans for disarmament, for an international police force, and for a world state. Power may be utilized by those who have it for the general advantage of the international community as a result of a conviction of self-interest. This is the theoretical basis of the United Nations Charter which recognizes the existence of power and entrusts its exercise, under agreed limitations, to those who possess it.

Just as within states the last hundred years reveal a growth of social consciousness and of a public conscience, so has it been, in lesser degree, in the international community. Contrasting the Congress of Vienna of 1815 and its aftermath with the Paris Peace Conference of 1919 and its aftermath, one finds in both situations the original dominance of the great Powers, but in the latter period, as the League of Nations developed, there is a growing participation and, comparatively, a growing influence of the middle and small Powers commanding a world audience through the Geneva forum. Moving on to the San Francisco Conference of 1945, one observes that the voice of the middle and small Powers is louder, more insistent, and, again comparatively, more productive of results. "We are prepared", King Haakon of Norway said in regard to the Dumbarton Oaks Proposals, "to let the great powers play the leading role. . .but

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we insist upon sovereign equality of the small nations in the sense that. . .we shall have the right to take care of our interests by taking part in the decisions."

The psychological factor may not unfairly be called the prestige factor. This is not universally true, as for example when the small riparian states on the Danube demand representation on a river commission with a view to exercising at least some influence over decisions which vitally affect them. But the insistence of certain diminutive states at the Hague Peace Conference of 1907, for permanent and equal representation on the bench of the proposed International Court of Arbitral Justice, was much less genuinely a reflection of real interest than of prestige considerations. In the field of power politics, every state likes to think that it decides its own destiny. Most of them do so to the same extent that you or I as voters determine individually whether the country will go to war. Theoretically, in the United States for example, I act through elected representatives and there is to be sure a cumulative effect of votes, but actually the single voter's voice has no more influence on keeping the United States out of war than the Norwegian or Panamanian Foreign Minister could stem the tide of events which swept those countries into World War II. Yet Norway, for example, may exercise real influence as one of a small international commission for regulating the fisheries of the North Sea, just as the individual American citizen may exercise influence as a member of a village board of selectmen.

As one examines the manifestations of the doctrine of equality of states in international relations, one seems to detect the emergence of a notion that it does no violence to the doctrine if unequal rights or privileges are accorded on the basis of a formula which fairly reflects a recognizable degree of interest. One is tempted to compare the American constitutional doctrine that a reasonable classification of persons affected saves a statute from doing violence to the constitutional guarantee of the equal protection of the laws. Examples of this notion are abundant in connection with various international organizations. For instance, in the International Institute of Agriculture, voting was deter-

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mined by membership in one of five classes, members of Class I having five votes and members of Class V having one vote. Equality was admitted in the sense that each state was free to choose the class to which it wished to belong, but membership in Class I involved an assessment of sixteen units of the budgetary base and membership in Class V involved the assessment of only one unit. A comparable plan in the Bretton Woods Agreements led states to seek a large allotment of shares in the Fund in order to be entitled to larger credit facilities, and to avoid larger allotments of shares in the Bank with resulting larger obligations to subscribe capital.

There is a general, and quite human, tendency in international affairs for states to emphasize their rights rather than their duties. That is why the action of the United States was notable in its early history when it combined claims for respect of its neutral rights with acknowledgment of its neutral duties. Similarly in various historical discussions of demands for the extension of territorial waters in order to enjoy wider rights in the monopolistic control of fisheries, some statesmen were wise enough to point out that sovereignty over a wider zone of waters entailed an extension of neutral duties in time of war.

It is relatively easy to find formulae for inequalities in voting power and in representation in technical international organizations where interest can be measured by statistics or factual criteria. It is supremely difficult to find acceptable formulae in political organizations where the prestige factor and problems of national existence may be at stake. Great Powers have power because they are great and not because a skillful draftsman has invented an ingenious formula. The platform of the League to Enforce Peace in 1918 suggested that "The representation of the different nations in the organs of the League should be in proportion to the responsibilities and obligations they assume." This suggestion is not dissimilar to the actual basis of five-great-Power control of the Security Council of the United Nations. The provisions of the Charter on regional arrangements reflect in large part the wide concessions which the United States in pursuance of the Good Neighbor Policy has actually made to

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the principle of equality in the Americas. The United Nations Organization is affirmed by the Charter to be "based upon the principle of the sovereign equality of all its Members", but no one can deny that unequal rights, privileges and responsibilities are also recognized throughout the Charter. Some of the factual inequalities are based on the more readily measurable types of interest as in the composition of the Trusteeship Council. Some, as in the voting provisions of the Security Council, are based upon the inescapable fact of power differentials. It is true, as Woodrow Wilson said, that "all nations are equally interested in the peace of the world"; it is not true that all can make equal contributions to its maintenance.

Because of the practical political importance of the doctrine of equality of states in international relations, the analysis of the doctrine, its manifestations, and the devices utilized to compromise with it have been made the subject of continuing study by the graduate Seminar in International Law at Columbia University. Even in the atomic age, and granting, *arguendo*, the possible creation of a world state, the problem will be a continuing one as experience with the creation of the United States federal system testifies. In order to focus on the problem as an aspect of modern diplomatic relations, a beginning was made with the Congress of Vienna of 1815. The following study by Miss Peterson is the result of this investigation. It is planned that subsequent articles will deal with other aspects of the subject.

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II. POLITICAL INEQUALITY AT THE CONGRESS OF VIENNA

ON the essential character of a congress, the Duke of Argyll remarked:

> It is not a Court of Justice, nor is it even a Court of Arbitration. It is not a Court with any coercive jurisdiction, or a Court in which any matter can be conclusively settled by vote or by majority. It is essentially a Court of Conciliation—an assembly in which an endeavor is made to settle high matters in dispute by discussion and mutual concession.
>
> It was reasonable, too, as it always must be, not to go into Congress without some previous understanding with the powers to be there assembled. Every man conversant with the conduct of affairs knows very well that public and formal discussions cannot be conducted with any hope of a successful issue unless such preliminary understandings have been arrived at.[1]

The principle stated in the first paragraph of the above quotation is based upon the doctrine of political equality of independent states. The factors of equality of extent, population, wealth, military or naval power, or any other feature in which states differ among themselves are not considered. It is a consequence of their independent sovereign character. But in actual practice a distinction cannot but exist between great Powers and secondary or minor Powers, as regards the weight to be attached to their demands. As a result, international assemblies have frequently been limited to representatives of the former class of states.

Such a distinction did exist at the Congress of Vienna which met in accordance with Article XXXII of the Second Treaty

[1] Duke of Argyll, *The Eastern Question from the Treaty of Paris 1856 to the Treaty of Berlin 1878* (London, 1879), II, 97, 128.

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of Paris, 1814, which provided that "all the powers engaged on either side in the present War, shall within the space of two months send plenipotentiaries to Vienna for the purpose of regulating, in General Congress, the arrangements which are to complete the present Treaty." [2]

The four Powers [3] had every intention of controlling the territorial settlements following Napoleon's downfall, and it is possible that had they been able to agree among themselves upon these settlements Article XXXII would not have been inserted into the treaty of peace. At the same time that the Treaty of Paris was concluded among the eight Powers,[4] a secret article was also signed between the four Powers and France whereby

> The disposition to be made of the territories which His Most Christian Majesty renounces by the third article of the public treaty, and the relations from which a system of real and lasting equilibrium in Europe is to result, shall be settled at the congress on the basis determined by the allied powers among themselves.[5]

Prior to the meeting at Vienna the work of preparing for a congress was carried on during the summer of 1814 by the ministers of the four Powers. Though they desired to keep the work among themselves, they did not want to antagonize the other Powers. Lord Castlereagh wrote to the Duke of Wellington, who was then in Paris, on August 7, 1814: "You will, I hope, be able to obviate any jealousy of these previous deliberations; they are the necessary result of our former relations, which must throw upon the four principal Allied Powers the initiative in most of these arrangements."[6]

[2] *British and Foreign State Papers* [hereinafter cited: *B. & F. S. P.*], I (1812-1814), 169-170.

[3] Austria, Great Britain, Prussia and Russia.

[4] Austria, France, Great Britain, Portugal, Prussia, Russia, Spain and Sweden.

[5] *B. & F. S. P.*, I, 170.

[6] *Correspondence, Despatches and Other Papers of Viscount Castlereagh*, edited by his brother, Charles William Vane, Third Series, "Military and Diplomatic" (London, 1853), II, 76. A week later Lord Castlereagh wrote again to the Duke of Wellington: "It may possibly be desired to remove any impression of counsels to the exclusion of France." *Ibid.*, p. 92.

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By September 13, 1814, the ministers of the four Powers had reached Vienna. The informal meetings, in which Lord Castlereagh and Prince Metternich consulted first Count Nesselrode and then Prince Hardenberg and Baron Humbolt,[7] began on September 15. These men felt that the "conduct of business must practically rest with leading powers." But in defining "leading", an entirely new distinction was drawn up. "We are agreed", wrote Castlereagh, "that the effective Cabinet should not be carried beyond the six Powers of the first order."[8] Thus, the directing cabinet was to be based, not on the Treaty of Paris, but on a distinction between "great" and "small" Powers. The four allies, England, Russia, Prussia and Austria, together with France and Spain, were to be considered the great Powers. The first expression of the idea of great Powers, with rights as such, distinct from any derived from treaties, may perhaps be dated from this meeting.

This was to be merely the formal directing cabinet, for the allies felt it necessary to preserve the initiative in their own hands. They based their claim on the first secret article of the Paris Treaty, which, according to their interpretation, gave them the right to come to a preliminary decision, not only on the subjects mentioned in the articles attached to the treaty, but also of the disposition of the whole of the conquered territories. This principle was definitely stated in a protocol of September 22, which had been drawn up by the Prussians.[9] Castlereagh felt

[7] See Jakób Leonard Chodźko, *Le Congrès de Vienne et les traités de 1815*, Introduction by M. Capefigue (Paris, [1864?]), I, 255-256, II, 257-264, for the membership of the various delegations.

[8] Great Britain Foreign Office, *Peace Handbooks No. 153* (London, 1920), p. 149.

[9] Chodźko, *op. cit.*, I, 249 *et seq:*

> "1. That only the four powers can decide among themselves on the distribution of states... but that the two other powers must be admitted in order that they can give their opinions...;
>
> "2. That in order not to deviate from this line of conduct, the plenipotentiaries of the four powers will not enter into conference with the two others on this subject, until they have come to a final decision, with perfect agreement among themselves....France is now under a legitimate government. The four powers do not mean to banish either her or Spain from all discussion."

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that this protocol was rather repulsive to France, and accordingly added a separate declaration which asserted that the discussions with France and Spain were to be conducted as toward friendly and not hostile Powers. He further reserved to himself the right to dissent from any decision of the four with which he could not agree, saying:

> With respect to the expression, *terminé entièrement et jusqu'à un parfait accord*, I wish to be understood as desirous of making every suitable concession of my own sentiments to those of my colleagues, for the purpose of unanimity; but I cannot consent to be absolutely bound by a majority, and must reserve to myself to make such avowal of my dissent, if such should unfortunately occur, as the circumstances may appear to me to call for on the part of my court.[10]

There was then to be a sham directing committee of the six Powers with a real inner committee of the four Powers. This group had also to deal with the problem of the Congress as a whole. Considerable ingenuity was expended by the ministers of the allied Powers to find a scheme whereby the delegates to the Congress would seem to take part in the discussions without actually having any part in the final decision.

The first proposal was to constitute the Congress by summoning the plenipotentiaries, and then to have them appoint a committee to prepare a scheme for their consideration. But as Castlereagh pointed out this would have immediately involved the Powers "without previous concert in all the preliminary questions of difficulty, such as, what Powers shall be admitted to sit and deliberate and what only to petition and negotiate, what are to be the functions and attributions of the Congress, and by what mode they are to act and conclude."[11] Baron Humboldt's views were of the Prussian order and he held that

> The Congress of Vienna is in no way a deliberative assembly of Europe. For Europe does not form a constitutional whole; and

[10] *B. & F. S. P.*, II, 554-555.

[11] *Peace Handbooks No. 153*, p. 62.

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> in order that there might be an assembly of this kind, the part that each Power should take in the decision would have to be fixed, which is not and cannot be the case.[12]

Baron Humboldt sought to justify the treatment of the Congress as a mere collection of negotiators in one spot rather than as a European assembly, but at the same time he explicitly recognized that there were certain matters to be dealt with at the Congress that were of concern to Europe generally and would have to be treated in that manner. In this category he placed the disposition of the troubles relating to the Swiss Confederation and the Kingdom of Naples, the sojourn of Napoleon on the island of Elba, the abolition of the slave trade, free navigation on certain international rivers, and the rank of ministers of different courts. But even in regard to these European questions he insisted that "all the Powers cannot deliberate at one time nor with perfect equality,"[13] and that it was necessary to leave the establishment of principles to the six great Powers, who would hear the others on the principles which they would like to have set up. Castlereagh considered Humboldt's plan objectionable as "it too broadly and ostensibly assumed the right to do what may be generally acquiesced in if not offensively announced, but which the secondary Powers may protest against, if recorded to their humiliation in the face of Europe."[14] Castlereagh was thus recognizing the fact that prestige, as such, meant much to the small Powers.

In turn he submitted an elaborate scheme for convening the plenipotentiaries and presenting them with *un fait accompli*. His comment on his plan was:

> The advantage of this mode of proceeding is that you treat the plenipotentiaries as a body with early and becoming respect. You keep the power by concert and management in your own hands, but without openly assuming authority to their exclusion. You ob-

[12] *Ibid.*, Appendix IV, "Baron Humboldt's Project for the Regulation of the Congress, Vienna, September 1814".

[13] *Ibid.*

[14] *Ibid.*, Appendix III.

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> tain a sort of sanction from them for what you are determined at all events to do, which they cannot well withhold and which cannot, in the mode it is taken, embarrass your march; and you entitle yourselves, without disrespect to them, to meet together for dispatch of business for an indefinite time to their exclusion having at the same time the option to confer with any of the plenipotentiaries separately upon the points in which they are more immediately interested.
>
> The further advantage is that, as you meet informally in the first instance as plenipotentiaries and not as a Congress, nothing is prejudged and nothing admitted till the leading Powers have had full time to weigh all questions well and to understand each other. . .[15]

Accordingly Castlereagh suggested a scheme by which, at a preliminary meeting of all the plenipotentiaries, they might be induced to allow the six great Powers to manage affairs for them. It is characteristic of his policy that he proposed to get the scheme through by making it as palatable as possible to the smaller Powers and by using the influence of the great Powers to manage the voting. In this way he thought that the six Powers would be accepted as a formal directing committee and that any objection would be easily overcome.

This question was never decided upon for there was among the delegates a degree of uncertainty as to how such a conference would act; and the question of the exact status of the Neapolitan and Saxon plenipotentiaries would, in a sense, be raised merely by summoning the plenipotentiaries together. The question was thus left open until the plenipotentiaries of France and Spain arrived, with the intention that the Congress should simply be postponed until there had been confidential intercourse between the plenipotentiaries. Neither Castlereagh nor the others realized the opportunity which their indecision would give to Talleyrand.

Talleyrand arrived in Vienna September 23, and he found the delegates of the four Powers in this state of indecision. "And

[15] *Peace Handbooks No. 153*, Appendix III, "Two Projects of Castlereagh on the Method of Opening Congress, Vienna, September 1814".

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moreover," he said, "how could they make up their minds to admit to the council of Europe, the very power against which Europe had been in arms during twenty years." He was informed that he should consider it very fortunate in being allowed to give his assent to the resolutions of the ambassadors of the other Powers. Talleyrand, being very realistic, pointed out that "if they consented to admit us to take a share in the acts of the Congress, it was for the sake of form only, and in order to deprive us of the means of contesting their validity." [16]

The four Powers held their opening meeting on September 30.[17] Talleyrand and his Spanish colleague, Labrador, were invited to "assist", a subtle phrase leaving their status conveniently vague. They both accepted the invitation in terms which implied that the ministers were all allies together. Since the Swedish plenipotentiary had not yet arrived in Vienna, his absence was not questioned, but Portugal protested the nonadmittance of her minister to this first meeting.

The French plenipotentiary used all of his diplomatic arts to claim from the first a position of full political equality with the four Powers, and he attempted to appeal from their authority to the Congress as a whole. Talleyrand refused even to consider the document for organization,[18] which had been drawn up by the four Powers. He realized that the obvious effect of the plan was to make the four Powers masters of the Congress. France and Spain would never be more than two against four even if they agreed on everything.[19] He demanded that the Congress be called together immediately but he admitted the need for a directing council: a Committee of Eight based on the Treaty of Paris. As a result of persuasion Talleyrand consented

[16] *Memoirs of the Prince de Talleyrand*, edited by the Duc de Broglie (New York, 1891), II, 199-200.

[17] *The Correspondence of Prince Talleyrand and King Louis XVIII*, Preface by M. G. Pallin (New York, 1881), pp. 12-28. Also see Chodźko, *op. cit.*, I, 252, "Project de déclaration sur la forme et la marche à suivre dans les délibérations du Congrès, communique au prince de Talleyrand à Vienne, le 30 septembre, 1814".

[18] *B. & F. S. P.*, II, 556, 559.

[19] Friedrich von Gentz, *Tagebücher* (Leipzig, 1873-74), I, 312.

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to the postponement of the Congress but for a definite period only. He also insisted upon the adoption of his *Règle* which provided that only those princes who had been engaged in the war, or were universally recognized as sovereigns and were at that time free, should have a right to send representatives.[20]

The delegates realized that they had to have some such rule as the *Règle*, for without it they could not have a meeting of the plenipotentiaries; it was imperative to decide who had a right to be summoned. Hardenberg was clearly on unshakable ground when he said that no plan could be considered which would give the minor princelings the right to intervene in the general arrangements of Europe.[21]

It is to be noted that not only were two of the eight signers of the Treaty of Paris, Portugal and Sweden, eliminated immediately from participating in the chief work of the Congress, which they had joined in calling, and that not only were two others of its signatories, France and Spain, assigned to a very humble rôle, but also that all the other Powers of Europe were ignored. This act did not go completely unchallenged by the small Powers, for the ministers of Bavaria, Denmark and Sardinia questioned the procedure and demanded to know whether the Congress had been formed and if so when it was to be assembled.[22]

At the second meeting, October 8, of the four Powers and Talleyrand, the Congress was postponed until November 1.[23] Thus, while Talleyrand had prevented any formal recognition of the rights of the four Powers or the Committee of Six, he had secured little else. Meanwhile the real business of the Congress was being carried on in informal meetings of the ministers of the four Powers, and private correspondence between them and

[20] *The Correspondence of Prince Talleyrand and King Louis XVIII*, pp. 28-44. See also *The Memoirs of Prince Talleyrand*, II, 339.

[21] *Peace Handbooks No. 153*, p. 67.

[22] *The Memoirs of Prince Talleyrand*, II, 240.

[23] Chodźko, *op. cit.*, II, 272, 273, " Déclaration pour ajourner l'ouverture formelle du Congrès de Vienne au 1er novembre 1814, en date de Vienne le 8 octobre 1814 ". See also *The Memoirs of Prince Talleyrand*, II, 247, 248.

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Alexander, for neither the six nor the eight met for some time. From these negotiations Talleyrand was entirely excluded. This situation continued throughout the whole of October.[24] The four courts were engaged in violent controversy over the Saxon-Polish question, but the only formal conferences which took place were those assembled to consider the question of the German Constitution. The ever-present Polish problem was considered not in any formal committees but merely through interviews and the exchange of notes, letters, and so forth between the delegates of the four Powers. They were determined to keep this question to themselves until they were on the verge of war.[25] Talleyrand could do nothing about this, and all the rest of the delegates knew that if the four Powers reached an agreement it would be ratified by all Europe. The ascendancy of the four was so great that the plenipotentiaries of the other Powers had no business to transact. Castlereagh did not even report on these changes in organization until November 21, when he announced that all opposition was dying away.[26]

The Committee of Eight met the latter part of October to consider again the question of convening a Congress. Prince Metternich was made president of the Committee and Friedrich von Gentz, secretary. A commission for examining credentials was appointed by lot. Russia, England and Prussia were selected. The Committee was to deal primarily with the verification of the credentials of the eight Powers but all the plenipotentiaries were to be invited to send in their credentials. It was agreed not to adjourn the Congress, but a new delay of ten or twelve days was proposed and accepted.[27]

At the meeting on November 18, the opening of the Con-

[24] Chodźko, *op. cit.*, II, 362-365, "Article semi-officiel sur la marche des travaux de Congrès de Vienne vers le moi d'octobre 1814".

[25] *The Memoirs of Prince Talleyrand*, II, 269. "The ministers of the four powers meet together, talk, project, change, and nothing is finished...they have given their word of honor to each other to inform us of none of their intentions."

[26] *Peace Handbooks No. 153*, p. 72.

[27] Chodźko, *op. cit.*, II, 358, 359, "Premier Protocole de la Conférence du 30 octobre 1814 des Plenipotentiaires des huits Puissances signatoires du Traité de Paris".

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gress was postponed to an indefinite date, which was never reached; and thus the Congress of the whole body of plenipotentiaries never came into existence, Meanwhile the organization for the transaction of business grew out of the necessities of the situation. The machinery that was set up derived its authority from no consistent principle. The Committee of Eight assumed without further authorization the position of a formal directing committee.

Conferences of the eight Powers were held on December 9, 10 and 14, at which, on the initiative of Talleyrand,[28] committees were set up to deal with several questions: the rank of European Powers and of their diplomatic representatives,[29] and the navigation of international rivers.[30] The opposition of Spain and Portugal prevented a formal committee from being appointed to consider the abolition of the slave trade.

There shortly followed a complete change in the composition of the Congress. Again it was the logic of events and not the deliberate planning of the statesmen that determined the forms by which they worked. On December 24,[31] Alexander demanded that the Polish question be brought before a formal conference. The Committee of Four, therefore, which had previously met in the most informal way, was now constituted as a formal conference. At the first meeting the plenipotentiaries of Austria and Great Britain insisted that France should be included in the deliberations. Talleyrand wrote to Louis XVIII that the coalition had at last been broken up and that now France was acting in concert with two of the greatest Powers and three states of the second rank.[32] Finally on January 9, Castlereagh made a formal demand for the inclusion of France which was agreed to by all the Powers.[33] Thus, at last Talley-

[28] *The Memoirs of Prince Talleyrand*, II, 282, 283.

[29] Sir Ernest Satow, *A Guide to Diplomatic Practice* (New York, 1922), II, 79.

[30] Chodźko, *op. cit.*, II, 527. See also *B. & F. S. P.*, II, 573, 578.

[31] Chodźko, *op. cit.*, I, 186.

[32] *The Memoirs of Prince Talleyrand*, II, 386.

[33] Chodźko, *op. cit.*, IV, 1883. See also *B. & F. S. P.*, II, 597, 601.

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rand was admitted to the inner circle. Upon his inclusion he abandoned all idea of constituting a general congress; and no more was heard of the rights of the small Powers. The result was that the formal Committee of Five, constituted to decide the Polish-Saxon question, became the real directing committee of the Congress. The proposal, therefore, which had been suggested in the early meetings, that a committee of great Powers direct the work of the Congress finally became effective, though only through the admission of France to an equal place with the four, and the recognition that Spain was not a great Power.

It will thus be seen that the question of whether the Congress was an international assembly with delegated authority to legislate for Europe as a whole, or merely a collection of negotiators dominated by the great Powers, was finally decided in favor of the latter.

A striking example of political inequality was the treatment of Saxony by the five Powers. They agreed among themselves that the King of Saxony should be deprived of two fifths of his dominions in favor of Prussia.[34] Metternich wrote of the proceedings: "It is therefore understood now that the King of Saxony is bound by the common decision of the great Powers, that he will be brought out of his state of captivity to be informed of the position which has been prepared for him."[35]

His approval of the cession of this part of his territory was secured by restraining his personal liberty until he had given consent. By some this procedure would be considered to have vitiated any title derived from consent.[36] The Powers guaranteed to Saxony the possession of the districts so designated, *en toute propriété et souveraineté*.[37]

[34] Chodźko, *op. cit.*, II, 401, "Protestation du roi de Saxe, en date de Frederichsfeld, 4 novembre 1814, annonçont qu'il ne consentera jamais à la cession de ses États, et qu'il n'acceptera aucun dédommagement ou équivalent".

[35] *Memoirs of Prince Metternich 1773-1815*, edited by Prince Richard Metternich (New York, 1880), II, 576, 577.

[36] See Charles Cheney Hyde, *International Law, Chiefly as Interpreted and Applied by the United States* (Boston, 1945), II, 1379, 1380; and L. Oppenheim, *International Law: A Treatise* (5th ed.; New York, 1937), II, 702.

[37] Chodźko, *op. cit.*, III, 902.

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The first committee that was constituted dealt with the problem of a constitution for the German states. This committee met October 14, in defiance of Talleyrand and without any authority from the Congress, the eight Powers, or any other body. It based its right to existence simply on the Treaty of Paris and itself decided who should be members of it. There was unanimous agreement that the committee be composed of only five courts, Austria, Prussia, Bavaria, Hanover and Württemberg, for a greater number could hinder the work. Nevertheless the five courts must be regarded as the most powerful.[38] The delegates, however, did contest the membership of the committee, and the plenipotentiary of Baden demanded his admission on the grounds that " this concerns the right of all, in regard of which according to the principles of International Law put at the beginning of the Declaration, no inequality can exist." [39]

Thirteen meetings were held but the group disbanded in November in the midst of the dissensions among the Powers. The representatives of Bavaria and Württemberg declined to have anything to do with the committee until the preservation of Saxony was assured. It was not until May 23 that a new committee was instituted, containing representatives of all the minor German states,[40] with the exception of Württemberg, which would have nothing to do with it. When Württemberg declared that she could not bind herself to the constitution of such a confederation until it was known what the possessions of each member of it would be, Metternich replied for Austria and Prussia that all that related to what he called the political question, by which he meant territorial arrangements, was outside

[38] Maximilian Samson Schöll, *Congrès de Vienne* (Paris, 1816), I, 53.

[39] Chodźko, *op. cit.*, II, 295, 296.

[40] The Constitution adopted June 8, 1815, was signed by the plenipotentiaries of Denmark, Saxony, Holland, Brunswick, Electoral Hesse, Saxe-Weimar, Saxe-Gotha, Saxe-Meiningen, Nassau, Lichtenstein, Reuss, Schwartzburg-Sondershausen, Schwartzburg-Rudolstadt, Waldeck, Schaumburg-Lippe, Lippe, Lübeck, Frankfort, Bremen, Hamburg, Saxe-Hildburghausen, Saxe-Coburg-Saalfeld, Holstein-Oldenburg, Mecklenburg-Schwerin, Mecklenburg-Strelitz, Anhalt-Dessau, Anhalt-Coethen, Anhalt-Bernburg, Hohenzollern-Hechingen, Hohenzollern-Sigmaringen, besides those of the original five, with the exception of Württemberg. Chodźko, *op. cit.*, III, 1372-1385.

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the competence of the committee, the great Powers having reserved to themselves the right to pronounce on such matters, and that enough was known about them in a general way for settling the act of confederation.

It is interesting to note that both of the Germanic committees were separate from the rest of the organization of the Congress. Their only connection with the central committees was the incorporation of some of the articles which they had agreed upon in the *Acte Final,* which indicated approval by the great Powers of their work.

The work of the Committee on International Rivers was of lasting importance. It dealt with the problem of the free navigation of rivers passing through the territory of more than one Power. At the meeting of the Committee of Eight on December 10,[41] Talleyrand asked for the appointment of a commission of eight members, one from each Power represented. Nesselrode observed that instead of turning the question over to the eight Powers it would be more suitable to form a committee of the plenipotentiaries of the courts directly interested and to join with them other Powers like Holland whose local rights were involved. The four Powers, France, Prussia, Great Britain and Austria, were represented by Dalberg, Humboldt, Clancarty and Wessenberg respectively. Russia did not participate.[42]

The commission, so constituted, met on February 2, 1815 and, following the suggestion of the Committee of Eight, invited representatives of Holland, Bavaria, Baden, Hesse-Darmstadt and Nassau, as riparian to the Rhine and Scheldt,[43] to take part in their conferences. At Vienna certain rules were laid down governing navigable rivers, based on the theory of riparian co-administration but not co-ownership. International rivers "were to be administered for the benefit of the world commerce, but their administration and navigation were to be left in the hands

[41] Chodźko, *op. cit.,* II, 501.

[42] Johann Ludwig Klüber, *Acten des Wiener Congresses* (Erlangen, 1815-1819), II, 96.

[43] *Ibid.,* III, 11.

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of the riparian states."[44] The principle of local control was furthered by assigning to the riparian states on each stream and tributary of the Rhine the work of drafting regulations, according to the general principles for their respective streams and tributaries.[45]

The character of the central commission as a meeting of representatives of states, rather than an administrative body, was settled at the fifth meeting. Each state was to have one member, since in a consultative assembly the equality of states was the accepted rule. Decisions were to be by a majority vote and no decision was binding on any state whose delegates had not voted in favor of it.[46]

Humboldt, in an interesting memoir, distinguished between a commission which was a conference of the agents of the states and one which would have real authority. He held that, in the former case, each state should have equal representation, but that, in the latter, representation should be in proportion to the extent of riparian ownership. Humboldt, therefore, proposed a committee of three, to be elected by the votes of the several states on the basis of their respective claims to the river banks. If this plan had been adopted, Prussia would have had more votes than any other single state.[47]

Humboldt, favoring a stronger central administration, proposed at the seventh meeting, on March 31, that a chief and three assistant inspectors be appointed to assure the successful carrying out of the orders of the central commission.[48] When votes were to be taken on administrative procedure they were to be in proportion to bank ownership:

Prussia	1/3	Holland	1/6
France	1/6	Other German States	1/3

[44] Joseph P. Chamberlain, *The Regime of the International Rivers: Danube and Rhine* (New York, 1923), p. 29.

[45] Klüber, *op. cit.*, III, 86.

[46] *Ibid.*, p. 146.

[47] *Ibid.*, p. 98.

[48] *Ibid.*, p. 220.

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One subinspector was to be named by Prussia, one by France and Holland alternately, the other by the remainder of the German states.[49]

The sovereignty of the riparian states, however, was carefully guarded. "No administrative authority for the whole river was proposed; the states were only to be bound by the regulations to which they had agreed and which they could administer as they pleased."[50]

The committee which was set up to deal with the rank of European Powers and their diplomatic representatives consisted of one delegate from each of the eight courts.[51] The result of their work was the *Règlement,* March 10, 1815, which for the first time caused the inclusion of the classification of diplomatic agents in the general body of international law. The proposal to establish precedence by the status of the accrediting Powers had been wisely rejected and instead the diplomatic agents were henceforth divided into the four classes which constitute the basis of modern diplomatic ranking.[52] This rule applied only to the diplomats of the eight Powers, but they believed that the other courts should be asked to adopt the same rules.

Following the *Règlement* were the signatures of the eight Powers in alphabetical order according to the French spelling.[53] The protocols of the five Powers were signed *pêle mêle* even after this date. Those of the eight Powers were at first signed *pêle mêle,* but, after March 19, the signatures were affixed to the documents in the alphabetical order of the French names of the Powers.

The Committee of Eight concerned itself with questions of broad interest which did not involve territorial arrangements. The committees that had been appointed to deal with the ques-

[49] Chamberlain, *op. cit.,* pp. 183 *et seq.*

[50] *Ibid.,* p. 188.

[51] Satow, *op. cit.,* II, 79.

[52] Chodźko, *op. cit.,* III, 939, 940, "Règlement sur le rang entre les agents diplomatiques".

[53] *Ibid.,* III, 939, 940.

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tions of international rivers and rank of diplomatic agents reported to it. This Committee also received and approved the final declaration of the Swiss Committee, which was appointed by the Committee of Four. Prussia had one delegate, Great Britain two, Austria two, Russia two, and France one.[54] The neutralization of Switzerland is an example of an external limitation which can be placed upon a state by the concerted action of the other Powers. Neutralization obviously imposes some limitations on legal capacities. The declaration of the eight Powers stated that " the general interest demands that the Helvetic States should enjoy the benefit of perpetual neutrality." [55] This declaration was accepted by the Swiss Confederation and was included in the *Acte Final*.[56]

Still another committee of the Congress was the Statistical Committee, which was composed of representatives of the five Powers. Toward the end of December, Castlereagh had made such a suggestion to the other three members of the Committee of Four. Its purpose was to estimate the relative value of the territories conquered from Napoleon and his allies, from the aspect of population, as regards not only number but also kind and quality.[57] It was not Castlereagh's original intention to include a French plenipotentiary on the committee, but Talleyrand delivered an ultimatum saying that a French commissioner should be admitted or the French embassy would leave Vienna on the following day.[58] Both Castlereagh and Metternich acquiesced. As has been pointed out, it had been originally the intention of both Castlereagh and Metternich that something more than a mere evaluation of numbers should be made, and that the riches of the respective provinces and the quality of their inhabitants should be taken into consideration. Prussia

[54] Satow, *op. cit.*, II, 80.

[55] *B. & F. S. P.*, II, 142.

[56] Edwin DeWitt Dickinson, *The Equality of States in International Law* (Cambridge, Mass., 1920), p. 280.

[57] Satow, *op. cit.*, II, 80.

[58] *The Memoirs of Prince Talleyrand*, II, 374.

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successfully opposed this idea and the committee was authorized to take into consideration only the actual numbers.[59] Talleyrand protested against a valuation which made an inhabitant of Poland and a resident of the rich territories of Saxony and Rhine as of equal worth.[60]

The Committee of Eight was also chosen as the organ for the declaration of March 13,[61] against Napoleon, when it spoke in the name of all Europe, much to the discontent of some of the minor Powers.

> It is reasonably asked by what right the eight powers signing the Treaty of Paris speak in the name of all Europe, who they were not at the trouble of consulting; by what right Sweden and Portugal decide for Sardinia, Denmark, the Low Countries, or Bavaria. The Kings of Bavaria and Denmark, both present, have with reason regarded this omission as an insult.[62]

The protocol was subsequently signed by many of the minor Powers, but Napoleon's return served to strengthen the concert of Powers and thus the Treaty of Chaumont was reaffirmed.[63] Requests from the smaller Powers, participating in the resulting new campaign, that they be admitted to the conference on the terms of peace were denied.[64] Again the Powers who had the responsibility for banishing Napoleon from the Continent felt that their political power should be proportionate.

Thus it was the intention to use the Committee of Eight, where it was necessary, to consider subjects affecting the general interests of all Europe. The Committee of Eight met only nine times before the last conference to sign the *Acte Final*, while,

[59] Chodźko, *op. cit.*, II, 562-565, "Procès verbal de la première séance de la Commission statistique, 24 decembre 1814".

[60] Comte d'Angeberg, *Le Congrès de Vienne* (Paris, 1864), p. 561.

[61] *The Memoirs of Prince Talleyrand*, III, 74.

[62] G. H. Munster, *Politische Skizzen über die Lage Europas 1814-67* (Leipzig, 1867), p. 228.

[63] *B. & F. S. P.*, II, 443, 478, 671, 674.

[64] Chodźko, *op. cit.*, III, 951 *et seq.*

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in the same period, the Committee of Five held forty-one meetings. Of sixty-seven protocols only seventeen were signed by Portugal, Spain and Sweden.[65]

At the last meeting of the Committee of Five, prior to the signing of the *Acte Final*, it was decided that all of the plenipotentiaries of the princes present at the Congress should be invited to sign the general treaty; that the signatures should be affixed in the alphabetical order of the courts, and at first among the plenipotentiaries of the crowned heads, then of Electoral-Hesse and grand dukes bearing the title of royal highness, and at last among other princes and free cities.[66]

The *Acte Final* had been drawn up by the *Commission de Rédaction,* composed of one plenipotentiary from each of the eight Powers and two chiefs, Besnardière and Gentz. They had been appointed by the five Powers.[67] The Committee of Five was unable to carry out its original plan of permitting all the princes still present in Vienna to sign, and only the plenipotentiaries of the eight Powers, with the exception of Spain, signed the general act in the alphabetical order of the French spelling of the names of their courts. The procedure of the alternate was not followed, for there was not time to make sufficient copies so that the Powers could sign their respective copies first.

The Spanish plenipotentiary, Labrador, refused to sign, giving as his reason that only a small proportion of the subjects dealt with in the *Acte Final* had ever been reported in the sittings of the Committe of Eight, and that a fraction of the Powers ought not to be permitted to settle the affairs of all Europe, merely summoning the rest to accord or refuse their signatures. This same idea was held by the delegate of another small Power, Hans von Gagern of the Netherlands.[68]

[65] *B. & F. S. P.*, II, 672.

[66] Chodźko, *op. cit.*, III, 1263, "Quarante-unième Protocole de la séance du 29 mai 1815 des Plenipotentiaires des cinq Puissances".

[67] *Ibid.*, pp. 896, 911.

[68] *Ibid.*, 1341, "Protestation de M. de Labrador, Plenipotentiaire d'Espagne Vienne, le 5 juin 1815".

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The great Powers had put forward the word Congress imprudently without realizing what the word implied. The result was that all of the European states except Turkey sent delegates to Vienna, but no appreciable difference would have been made in the final settlement if a large majority of the plenipotentiaries had never appeared there at all. They provided an expensive background.[69]

Proof that the settlement of the affairs of Europe belonged to the five Powers can be found by examining the conduct and procedure of the Congress. The other states had only to decide whether they would accept such settlement or not.

The reason was that there were five and only five Powers in Europe. They were successful in redrawing the map of Europe because they had the men and the resources—force. As for the rest, the secondary Powers, Portugal, Spain and Sweden, were admitted to the deliberations of the five but could do little more than ratify the decisions which the great Powers reached, while the minor states were merely permitted to make known their wishes.

The idea of an assembly of all Powers, imagined by some, which Talleyrand had tried to use for his own purposes, was found to be impossible. The large number of small states, it was felt, would make an assembly impracticable even if the Powers had desired the presence of such a body.[70] As can be seen by examining the preliminary meetings of the Committee of Four, there was never any intention on their part to extend political equality to the remainder of the states of Europe. With the inclusion of France the five Powers considered themselves as "Europe"; speaking in the name of all Europe, they asserted successfully the ascendancy of the great Powers. France ceased to champion the cause of the minor Powers.

While there was no official machinery, certain forms and

[69] See Friedrich Freksa, *A Peace Congress of Intrigue, Vienna, 1815* (New York, 1919), and Guglielmo Ferrero, *The Reconstruction of Europe: Talleyrand and the Congress of Vienna, 1814-1815* (New York, 1941).

[70] Albert Sorel, *L'Europe et la Révolution* (Paris, 1895-1910), VIII, 382. Altogether there were 216 "chiefs de mission".

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groups developed capacity for action. Committees were appointed at the meetings of the four, the five, and the eight Powers to deal with specified problems. The membership was generally composed of the representatives of the states that participated in the appointments. The composition of two committees proved an exception to this general procedure. The small riparian states and the Germanic states were permitted to take a part in the meetings of the committees on International Rivers and the Germanic Constitution, respectively. But the great Powers were successful in maintaining control of the proceedings.

The control of committee membership was an obvious method by which the Powers were able to gain added superiority. Their position was also advantageous in that the defeated group was numerically smaller and they did not have to concern themselves with apportioning the membership. France was alone against seven other Powers and as a result her representation was smaller. Another effective means of keeping decisions in the hands of the large Powers was the division of the conference members into several groups, four, five, and eight, and the maintenance by each of jurisdiction over matters primarily affecting it.

There was not even equality among the concert of Powers. Prince Metternich wrote:

> England appeared at Vienna with all the brilliancy which she owes to her immense successes, . . . to a condition of strength and solid prosperity which no other Power has attained in these days, and lastly to the respect and fear which she inspires and which governs her relations with all the other governments. In profiting by these advantages, England could have given the law to all Europe. . . .England renounced this noble privilege. . . .[71]

Of organization, then, according to the modern idea of an international assembly, there was no trace. The Congress never formally opened, credentials were never officially verified, and there was no plenary session. There was nothing in its method of discussing and settling questions that differentiated in pro-

[71] *Memoirs of Prince Metternich 1773-1815*, II, 558.

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cedure from ordinary diplomatic negotiations between nations, except the proximity of the negotiators. At one of the sessions of the eight Powers, Metternich declared that the Congress

> was not a congress; that its opening was not, properly speaking, an opening at all; that the commissions were not commissions; that in the assembly of the powers the only advantage they had to note was that of a Europe without distances: that they could agree, or they could not.[72]

It is unnecessary to point out that the supervision of the society of nations by the concerted action of the great Powers, as practiced at Vienna, is irreconcilable with the notion of political equality.[73] The lesser or "small" Powers were denied equality of representation; they had no voice in the decisions except as they were required to ratify what the great Powers had done; and they had no choice but to accept a settlement which the concert had agreed upon and which it stood ready to enforce. Political equality was not assured by recognizing the right of every interested state to participate on an equal footing with the other states, by conceding to the delegation of every state an equality of voting strength whenever votes were taken and by requiring unanimity for all important decisions. These factors were notoriously absent at Vienna.

The diplomats of the period did not speak of "political equality" as the desired end to be achieved, but of a "balance of power". This was defined by Talleyrand as:

> A combination of the rights, the interests, and the relations of the Powers among themselves by which Europe seeks to obtain—
>
> Firstly. That the rights and possessions of a Power shall not be attacked by one or several other Powers.
>
> Secondly. That one or several other Powers shall never attain to domination over Europe.
>
> Thirdly. That the combination adopted shall render a rup-

[72] *Memoirs of Prince Talleyrand*, II 295.

[73] Dickinson, *op. cit.*, p. 280.

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ture of the established order and of the tranquility of Europe difficult or impossible.[74]

Prince Metternich in describing French actions at Vienna pointed out that defending the feeble against the strong restrained each Power within its proper limits and caused it to work in good faith for the reëstablishment of political equilibrium.[75]

Still another Austrian, Friedrich von Gentz, secretary to the Committee of Eight, termed the "balance of power" as "that constitution subsisting among neighboring states more or less connected with one another; by virtue of which no one among them can injure the independence or the essential rights of another, without meeting with effectual resistance on some side, and consequently exposing itself to danger."[76] He pointed out that, among those who recognized combinations among states founded on an equal balance of power, there were various misconceptions of the idea. Some held that in such a group the states should be "measured, squared, and rounded," with respect to population, wealth, armies, navies, and so forth. This theory would bring about either a race for power or a war to diminish the most powerful state. The opposite conception was that the whole idea of a political balance was a dream.

If there was any concept of equality at Vienna at all, it existed only in the sense expounded by Gentz, who said that states possessing various degrees of power and wealth "shall remain untroubled" within their respective confines. The rights of each state should be equally respected. This does not mean that each state should have the same rights, that is, rights of equal quality and value. "True equality, and the only equality attainable by legitimate means, consists, in both cases, in this,

[74] *The Correspondence of Prince Talleyrand and King Louis XVIII*, pp. xv, xvi. See also Antonio Sanchez de Bustamente, *Derecho Internacional Publico* (Havana, 1933), I, 248 *et seq.*

[75] *Memoirs of Prince Metternich*, II, 559.

[76] Friedrich von Gentz, *Fragments upon the Balance of Power in Europe* (London, 1806), pp. 55-65.

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that the smallest as well as the greatest is secured in the possession of his right, and that it can neither be forced upon him nor encroached by lawless power." [77]

These conceptions of equality were not accepted by all writers of the time or developed as fully. It might be said that they were more realistic. Dominique Pradt, writing ten years later, asked: "Hence, what equality can be found with those who have the power of taking everything, and those who can retain nothing; between those who have lost all, or almost all, and those who have obtained everything. . . ?" [78]

GENEVIEVE PETERSON

YONKERS, N. Y.

[77] Gentz, *op. cit.*, pp. 55-65.

[78] *The Congress of Vienna* (London, 1816), p. 4.

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MUST IT BE POWER?

AS one scans the vast flow of written words on the problems of the peace one cannot escape the feeling that the American people are passing through a kind of political puberty. They have just discovered the facts of international political life; and the discovery has thrilled them. They are fascinated, somewhat self-conscious in it, almost defiantly proud, and very blasé, self-consciously blasé. See, they seem to be saying, now we know. We cannot be fooled any more by childish fairy tales about what makes the world of international politics.

Power: it is power we have discovered, and we are fascinated by it. A little bit of proud Machiavelli appears in most of us. No more illusions about international coöperation and an interdependent world, with law as the substitute for force in international relations. No, we shall put ourselves to learning how to get along with Great Britain and Russia as the Big Three. Then we shall have peace. We do not, observe, follow the logic of that position to its conclusion. We do not say that, life being to the strong and power the ultimate determinant in the larger group relationship, we must develop our potentialities of power to the highest effectiveness, must have the largest army, the largest navy, the largest air corps, the largest atomic fission arsenal, and use them either for our aggrandizement or as a deterrent to attacks against us or as a club to compel others to behave and thus preserve the peace—*Pax Americana.* That would be at least consistent. Instead we say only that the key to peace is understanding with Great Britain and Russia. Let us three

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great states only preserve the peace among us, and all will be well. The others, it follows by implication, will be orderly and obedient, and they do not count anyway. We three have the power; we count, and we alone. League of Nations, U.N.O. and all that—that is all well enough; we must declare our high purposes, we must not depreciate high ideals, we must give moral encouragement, but all of that is something for the future or, in the present, for white slavery and child labor and the opium traffic and control of syphilis. Meanwhile let us get to the business in hand.

So we have books and monographs and articles and speeches on how to come to accord with Great Britain and Russia. I single out one of them, because, while typical of the genre, it is the clearest and most cogent expression of the case, the most closely reasoned and politically the most mature.[1] Mr. Fox's theme is in the subtitle: *The United States, Britain, and the Soviet Union—Their Responsibility for Peace.* The premise is both explicit and implicit. Peace at any time is the resultant of the forces at work among the great Powers of the time. "The Western state system has always been dominated by a few great states." The Europe that emerged out of the chaos of the Thirty Years' War " was ordered by a select coterie of the more powerful who recognized each other as 'The Great Powers.' " He does not even by a marginal note add what happened in the century and a half after that war. So also, he might have said, was there in the nineteenth century what had more formal status as the Concert of Europe, and he might have added a note on what hapened from the middle of the nineteenth century to the middle of the twentieth. Nevertheless, he finds, " power can be used to protect as well as to enslave " (protect what? peace? when in history?), and our problem " is to discover the condi-

[1] *The Super-Powers: The United States, Britain, and the Soviet Union—Their Responsibility for Peace.* By William T. R. Fox. New Haven, Institute of International Studies, Yale University, and New York, Harcourt Brace and Company, 1944. 184 pp. $2.00.

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tions of security in that world", by which he means a world in which there are disparities of power between the great and small. Hence our problem is to find the means to collaboration in "a three-power coalition for peace."

The means are to be found in one of a "variety of frameworks of commitments within which such a coalition for peacee could operate." One such framework Mr. Fox suggests. It includes the declaration of a sort of Truman Doctrine covering Great Britain—the United States will deem an attack on Great Britain an unfriendly act; preparation by Anglo-American Combined Chiefs of Staff for joint "effective and immediate action to check aggression" (as an example of collaboration in a three-Power coalition for peace? Commentary by Josef Stalin not provided); continuation of the Anglo-Soviet treaty; three-Power declaration covering both Europe and the Far East; and then, not quite as an afterthought and apparently not supererogatory, a multilateral agreement by freedom-loving states setting up a "non-coercive" security organization. This, one takes it, is the "program for our own time", the scheme for peace which presumably will work differently from the Concert of Europe in the nineteenth century and the "order" of the great Powers in the seventeenth and eighteenth.

How? Mr. Fox answers by analyzing the relations between each two of the three. Between Great Britain and America there are no direct conflicts. This will be admitted: even trade rivalries are not likely to be of the order of conflict that culminates in war. Plainly the two countries do not covet the same territory, as Mr. Fox says, not even the imperialists in each. It may be admitted, too, that maximum security for the United States requires Britain's continued existence as a great Power. As a great Power, yes; but as a great empire, in recurrent rivalry with other empires or aspirants to empire, now Germany, now perhaps Russia? It is true that Great Britain and America do not come into conflict on any specific issue touching American

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national security directly; but may they not do so from the point of view of America's remaining at peace? For any great Power such as the United States—or, for that matter any Power of any size—there are always two questions bearing on the fate of its people. One concerns the actual physical safety of the nation; the other concerns its ability to avoid war even when its physical safety is not in jeopardy. It can be granted that Great Britain does not threaten America directly, but if British imperial acts, ambitions and policies are such as to bring it into collision with other empires or aspirants to empire (say Germany in the Near East and Far East before 1914 or Russia in the Near East and Central Asia after 1945) and that collision is such that it cannot be circumscribed, such that America will not be able to stay out of the war that results, then is there not potential conflict with Great Britain in a real sense? That is, cannot Britain's policies imperil the safety, the well-being, the survival even of the American people, since they make for war from which America cannot be immune? Our future relations with Great Britain put two questions. One, shall they be such that we shall act in unison for mutual insurance against defeat in war? Two, shall they be such as to minimize the risk of war from which America cannot escape? For keeping out of war is as high a national interest as winning a war when it comes. If the choice falls on the affirmative to the first, then not only do we beg the question of the preventability of war but we make confession of failure, of defeat in advance of effort. And, whether we so recognize or not, we have resigned ourselves to war. That may be inevitable, but the inevitability has not been demonstrated, not so irrefutably as to be accepted in resignation.

Mr. Fox also examines the relations between Russia and America and says, quite properly, that there is no point at which their vital interests are in conflict. They are geographically so widely separated that they can attack each other only with the greatest

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difficulty. As Mr. Fox says, each can generate maximum power only when attacked, and one may even concede to Mr. Fox, though reluctantly, that war between them would be so protracted, destructive and inconclusive that there would be hesitation in embarking on it. That this would be a deterrent is in the light of history a doubtful proposition. But let this be waived. Let it be waived also that the two countries do meet in the Far East and that any attempt by Russia to expand even its political influence in Manchuria and China would make future Russo-American relations a replica of past Japanese-American relations. Concede all that; and yet, when it is demonstrated now that there is no point at which the two countries or their interests are in conflict, what has been proved? This writer, for one thing, remembers how cogently it used to be demonstrated to him, when he held that all the forces in Japanese-American relations were making for war, that there could not be a Japanese-American war, since for geographical reasons the two countries could not get at each other. They did—they did. Suppose one had set out in 1900 to examine the relations between Germany and the United States. What points of conflict were there? How remote and far-fetched we should have considered a list of causes sufficient to draw them into war twice in a generation! And if war be construed as the consequence of direct threat, can more than derivative arguments be made for the inescapability of war between Germany and the United States in 1941? In modern times there is, on the analogy of the multilateral character of foreign trade, a multilateralism in international politics. Modern war is less the product of direct clash, of direct, recognizable mutual threat, than of the whole complex of forces in international politics, a complex in which a kind of gravitation draws some nations to one side, others to the other, almost beyond national volition. Mr. Fox himself recognizes this when, at another point in his argument, he says the greater danger is that Russia and America

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" will be drawn into a third world war *indirectly* or *reluctantly* —indirectly by finding themselves in a conflict which is not at first a Soviet-American war, or reluctantly by the leadership in one country coming to be convinced that conflict with the other is 'inevitable' " (p. 100). That Russia and America—or any other two countries—will be drawn into war indirectly is not only the greater danger; it is in modern times *the* danger. For the majority of countries, that is how war comes about in our time, and to determine the relations between any two nations by an examination of the issues that lie between them alone is irrelevant and pointless.

That is why it is futile to look for a " program " for peace in any " framework of commitments " for " collaboration " among Big Threes or Big Twos or Big Fours, why the current absorption in that theme is so unfortunate. That is why even the firmest and most concrete agreement, made in perfect good faith, among Great Britain, Russia and America would not serve as an assurance of peace. It would touch only the externals and the fringe of the potentialities of conflict. We should have only a more uneasy and more evanescent Concert of Europe, more uneasy and more evanescent because twentieth-century world politics are more delicately poised, more volatile and explosive than nineteenth-century world politics.

The theory of the Three Super-Powers as a way to peace is not even a counsel of despair; it is a counsel of fatal resignation. If I held that theory to be sound and furthermore the only practicable measure before us now, I for one would believe in and work ardently for a program of immediate and complete militarization for America, and I do not see how anyone can in logic do otherwise. What evidence is there in history that such a coalition will long endure? What evidence is there in the events of the months following the end of the war that the " collaboration " among the three great Powers goes very deep or signifies any genuine accord on fundamentals or offers prospect of any real foundation for a society not ordered by force? If that is

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the only recourse left to us, if international jurisdiction and execution are impracticable, then peace is impracticable and let us act accordingly. Let us contract frank alliances in order to be in a position to make war successfully, and for reinsurance cultivate our own military power to the utmost, make ourselves as nearly impregnable as possible for defense, as nearly omnipotent as possible for offense.

Need we really make that admission? Is the evidence for that case already irrefutable? Why is an international organization with real power so demonstrably impractical and impracticable that it can be confined to enunciation of idealism and otherwise relegated to "collaborations"? By what evidence or theoretical argument has the case been closed? Russian intransigence, Russian expanionism or Russian distrust of capitalist motives? If either is the insurmountable obstruction, it would be so no less to a permanent tripartite collaboration, to a Triumvirate for the world. It would be no more difficult to come to working accord with Russia in the one relation than in the other, no more difficult in an organism of large dimensions than in an organism of small dimensions. If Russian reluctance is the obstruction, we cannot coöperate with Russia anyway, except tongue in cheek, which does not call for books and articles and official pronouncements. What other obstruction has been demonstrated to be insuperable? Why does the admitted disparity in power between national units irrevocably foredoom the determination of relations between those units by force alone? It has not done so in the relations of smaller groups, as we know. Why, in short, is the case closed now, judgment given, the whole idea of international organization and action thrown out, and our thinking restricted to a flyblown realism? Why so quickly renounce hope, thought and effort? Can it be that, having been politically infantile about the League of Nations twenty-five years ago, we now want to prove to ourselves that we are politically grown up? I for one suspect so. I suspect that, realizing now that we cherished foolish

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illusions once about the idea of international organization, we now, instead of holding ourselves to blame for cherishing foolish illusions, buttress our self-esteem by reacting against the idea itself. In that case we are merely moving from political infancy to political puberty. No doubt we shall also move from political puberty to political maturity. But have we time? And even if we have, will not the interval be tragically wasteful in human suffering?

Nathaniel Peffer

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MONOPOLY RECONSIDERED

ORGANIZED business is characterized by a large "sunk" investment, more or less continuing trade relations with both resources and customers, a semipermanent force of employees, long-term contracts, price policies, and an established good will or esteem.

It is the main function of management to select whatever trade advantages appear to be most valuable and attainable and to incorporate them into the organization. Such advantages, for example, include: a preferred location, ownership of raw material, superiority of product, a reputation for reliability and excellence and fair dealing, a rounded out system of services and repairs, a research department which maintains a constant stream of improvements. All these may be unique to one organization, or they may be paralleled by competitors. In any case, they are expensive to maintain, and their value may be fugitive.

The highly developed organization rests on a flow of production satisfying an equal flow of demand at prices administered in accord with an established policy or pattern. This expectation of continuity in turn rests on the position in the trade which a concern has achieved. The possession of trade advantages is therefore vital to an organized economy, as distinguished from an individualistic, competitive economy.

The Process of Administering Prices

Direct competition, as symbolized in supply and demand curves, operates in only a small segment of the economy. It is dominant in commodity markets, especially those that are highly standardized. No element of future commitment or advantage is here involved; the price comes automatically as the pressure of buyers and sellers alternates. In auction sales, either of unique or of perishable articles, the price is the automatic re-

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sult of participants. Particularly capricious is the price of perishable foods, which must be sold to avoid total loss.

Articles made to order, also, are dominated by direct competition. Given a set of specifications, bids and offers are made with reference to the urgency of potential sellers and buyers, often covering a wide range of prices. Such articles as houses, locomotives, ships, custom-made clothing, specialized machinery are generally priced by direct competition. So also are the issues of new bonds, which formerly were among administered prices.[1]

Throughout the organized economy, direct competition is merely one of the forces to be taken into consideration. Prices are set by the sellers in the hope that they will contribute to permanence as well as effectuate sales and return immediate profit.

The prices named by manufacturers or dealers in the same or similar articles are an important element. But so also are the prices named for noncomparable articles; for these also contend for the consumers' dollars.

The degree to which prices set by the sellers are adhered to is a matter of practical administration. In most of the intermediate deals—that is, sales from one business concern to another, as apart from sales made by a business concern to a wide public—they are subject to some negotiation. This may affect quantity discounts, credit terms, special arrangements for delivery, express or freight payments, exclusive rights in a territory, return privileges, cancellation agreements, or any other advantage that the mind can suggest. Such departures from the accustomed terms are generally minor in character, depending on the urgency of the seller and the values of the customer.[2]

[1] Whether or not the destruction of continuity which formerly existed between bankers and corporations was beneficial still remains to be proved.

[2] As these details are not published, they remain secret, except as they come out in trade gossip. Some nonprice exceptions become so general that they gain the status of a trade-custom. The almost unique opportunity was once afforded of comparing prices paid by two large department stores, especially of those articles where the buyer claimed he had an inside price. The result was that about 70 per cent of the prices were found to be identical; about 20 per cent in favor of one store; and 10 per cent in favor of the other. The differences were very small. Certain buyers get the reputation of always demanding an extra discount; in which case, the original asking price is set so as to permit of this apparent concession.

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Such negotiations become impractical as the field of customers broadens; and in sales to the general public they are quite impossible. There are, however, certain special arrangements in vogue. Seamstresses, for example, generally receive a special discount in the purchase of yard goods; Army and Navy officers, ministers, and professors often have a special discount; purchasing agents for out-of-town customers have certain privileges. All these, however, pertain to classes rather than to individuals. They have become part of the routine, and the routine must be maintained.

Commercial business generally is done through the offer, at set prices, of articles that have been produced. These are administered prices. They are named by the sellers as the result of a variety of considerations, such as an estimate of cost, the prices of competitors, the conditions of demand, the possibility of increased volume, special technical factors and general business conditions. These considerations will have diverse weights under varying conditions, and will be interpreted differently according to individual judgments. The ability of price administrators, their past experiences and imaginations, will lead them to adopt such price policies as appear appropriate. In a new field, the blunders may be considerable, but they may be corrected by experiment. In an established business, a series of minor variations is constantly being tried out before a new policy is set.[3]

It is easy to misinterpret the various pressures that lead to the naming of price. A manufacturer of stainless steel cooking utensils named absurdly high prices based on his initial low production rate, with the excuse that he could lower prices substantially as soon as he had achieved the necessary volume. The volume did not materialize. Gillette Safety Razors were at first (prior to World War I) sold at prices from $5 to $75. They

[3] Telephone companies have a wide experience of varying local rates on which to base judgments of the effect of rates on volume of calls; in addition, it is always possible to conduct an experiment in a limited area before applying a new general policy. The Woolworth Company tried out its higher prices in a limited number of samples before it broadened its price range from 5 & 10 cents; special concessions are generally made before any new price structure is set.

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were luxury articles, silver or gold plated, and even solid silver, put up in expensive receptacles accompanied by wide advertising. During the war, they were supplied to troops in greatly cheapened form—nickel plate and utility packages. In 1921, with the expiration of the patents, this utility razor was marketed for $1—and even less. Use of the safety razor became general, and the market expanded enormously. Emphasis was shifted to low cost and quantity production.

It takes courage as well as sagacity to gamble on a rate of demand that will bring forth the volume needed for lowered costs. These qualities are conspicuously lacking in the administering of public utility rates—railroad, electricity and gas—all of which are managed by technicians in contrast to merchants.

In addition to creating a rate structure which would meet the necessities of the various types of demand for electric current, utilities attempted to increase use of current by selling gadgets directly to the public, at profitless prices and fantastic credit concessions. The program had meager results for two reasons: the total of distribution was increased by an imperceptible fraction, and merchandising methods were clumsy.

These administered prices are not inviolable. Normally, the purchaser is under less pressure to buy than the seller is to sell. The manufacturer deals in relatively few products, and his success is wedded to them.[4] The distributor has a choice of carrying different lines and he also has the direct contact with his customers to promote one article as against another. The ultimate purchaser has a high degree of freedom to go where he will. Unless, therefore, some trade advantage can be created which circumscribes the freedom of the purchaser, the seller is always at a disadvantage.

When experience shows that the named prices lead to rejection by customers, they must be re-analyzed. They are set

[4] There are exceptions: taking different sizes and shapes into account, the U. S. Steel Corporation has been estimated as manufacturing up to 500,000 items; General Electric Co. and General Motors Corporation also make a wide variety of articles. In a sense, these concerns are an amalgamation of different manufacturers into one central unit; each division has a restricted field. Further, they are the exceptions, not the rule.

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in the first place with a definite quantity of sales in mind; if this does not materialize, then the situation must be corrected. At first, experiment takes the form of special offerings, with various types of concessions. From the success or failure of these experiments, a new concept is evolved, and a more realistic price is named. The general scheme of things is then adjusted to the new situation with whatever skill is available.

The search for a new price entails difficulties. It breaks confidence, and arouses fears. It is an operation requiring finesse in handling so as to diminish the sense of uncertainty. Once the new price has been found—meaning one which will secure the anticipated number of purchasers—the hope is that it will remain permanently stable, even though experience shows that this permanence is of a limited character. However, if enough trade advantages have been attained—and are kept up—such a setup at times may last for a surprising number of years, and weather profound general disturbances.

Changes in administered prices necessarily are made only from time to time. The desire of those who set them is that they will not be changed at all, so that minor increases or decreases in the cost of production and distribution are overlooked until they attain sufficient strength to become of real importance. Small fluctuations of demand, likewise, are not permitted to alter the price schedule. As long as possible, other means are utilized—greater sales pressure, better packaging, new markets. A real change in the price structure has far-reaching effects on the customers who hold stocks of goods, and the seller who expects to retain his customers must do his utmost to protect them.

Take the price of any material that enters into the manufacture of finished articles. A good example is rayon yarn. When the price is lowered, all manufacturers have to readjust their inventory values. If they, in turn, lower the prices of their finished articles, wholesalers and retailers must follow suit. On the other hand, an increase in the price of yarn increases costs to the manufacturer—and prices to the distributors, with its profound effect on rate of sales to the public.

Manufacturers using raw materials that are traded on com-

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modity exchanges can protect their inventory value by a system of short sales, but this is not possible without commodity exchanges. Consequently price increases are resisted right down the line, with the final burden coming on the last seller.

Frequent price changes thus have a harmful influence on manufacturers for one set of reasons and on distributors for another set. Retailers are particularly disturbed by a rise in price, for they cannot accurately gauge its effect on demand. Moreover, their ability to raise their prices in conformity with the increased costs they have to pay is limited by their competitors, one or other of whom may have a considerable inventory bought at a lower price level. Such a situation is especially serious to the mail order houses, whose price structure is less flexible than that of local or chain stores.

The ability of those who administer prices to hold to a given schedule depends on a variety of forces, as well as on their personal temperaments. Certain trade advantages appear so great and so permanent as to constitute approach to monopoly. Outstanding among these are the fixed habits of a people. Wrigley's Chewing Gum, Coca-Cola, Bayer's Aspirin, Hershey—in these cases, demand seems only remotely related to price. It happens also that some trade-marked articles have become so well known that in the public mind they are synonymous with the generic species of which they are but one variety—as Pyrex with ovenglass, Kodak with camera, Johns Manville with roofing shingles. The Corona Corona Cigar was so named to imply the ultimate of perfection; but unhappily the second Corona was held to apply to the shape and so the name became open for use to all. This constitutes an overselling of the trade name, which may prove to be a boomerang. The Eastman Kodak Company felt impelled to run a campaign to the effect that "If it isn't an Eastman, it isn't a Kodak."

The stability achieved by administering prices wisely confers a limited benefit on consumers as well as on manufacturers. They want to know where they stand; they want to be able to repeat a satisfactory purchase. Many purchasers have neither the time nor the facilities to make accurate appraisal of quality

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and price of the multifarious articles they buy. That is a field for experts; and they look to experts for a guarantee. Even though the power exercised in the administration may be, and is, abused from time to time, so also is the power of knowledge abused in a market dependent on higgling. The more stable the organization, the less will it risk its reputation for a temporary gain.

Pressures Behind Administered Prices

Administered prices are set in a framework of economic forces and policies. They reflect the judgment of those who set them in regard to the price schedules that will be accepted by consumers, that will carry out fixed policies, that will cover costs, and that will build the foundations of the future. They are not set *in vacuo*. They are not set in order to maximize profits, unless that term be so stretched in definition as to become meaningless.

There is generally a considerable leeway within which prices may be set. Seldom is there a single point. The range of this leeway depends on the economic surroundings. The choice of the price depends on the skilled interpretation of demand, the accuracy of imagination of the effects of some other price, the direct and indirect competitive situation, the strength or absence of pressures other than price.

Objectively, the conditions vary from those articles having no advantage of importance, to those in which the advantages are so great as to minimize the importance of price. In the first class are the articles carried by chain stores—drugs, groceries, millinery, shoes, variety, and others. Low price brings the demand; the whole system is organized to secure the lowest price possible. The naming of price does not go beyond the mirroring of public demand: the atmosphere is one of fierce competition against a bogy, being in this case the attainment of the sales quota.[5]

Typical of the opposite extreme is Coca-Cola. Its use is deeply imbedded in the habits of the people; it has an elaborate

[5] The setting of a sales quota is itself a curious combination of incentive, judgment of the possibilities, and a volume that will yield a profit above overhead costs.

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and marvelously efficient local distribution. No rival has as yet been able to do more than take the leavings. "Coke" is a nationally accepted word. Bayer's Aspirin, in spite of the fact that its formula is technically duplicated by its competitors, has also attained such a position that the effect of price is secondary.

In between these extremes are the cases where price pressures must be analyzed and the strength of the forces involved brought into harmony with a general price policy.

In commodities offered to consumers, the price must bring sales in sufficiently large volume to cover overhead and yield a profit; and it must create the good will which brings repeat business. It is easier to retain old customers than to find new ones. This is forcibly illustrated by department store experience, which shows that the response to mail advertising from regular customers of the department is far greater than from lists borrowed from other departments.

When goods are sold commercially—that is, for further manufacturing or for distribution—good will becomes more particularized. Customers are fewer, and their needs can be studied individually. There are opportunities for arrangements which may be said to enter the price structure.

If stability of price is fairly well achieved, profits become more dependent on volume. But the possibilities of achieving volume vary widely. In the case of articles of general consumption, the possibilities are relatively great. Habits can be extended; reputation can bring new purchasers; further markets can be developed. Typical are such developments as the number of telephone users, the increase in radios from one to several in each home.

Of a different type are those articles for which demand is limited by the number of settings into which the individual article fits. This demand is derived from a given situation, and is both necessitous and limited. Price is secondary. Spare parts for machines are an extreme example. The demand for tires is dependent on the number of automobiles and the mileage driven. Steel rails are needed to replace wear and tear, or for new lines.

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Where the price of an article is only a fractional part of the cost of the finished entity, any change has a correspondingly small effect on total cost.

Each price administrator takes into consideration the effect his price will have on his competitors. A sudden and drastic lowering of price may be met or exceeded by competitors, and thus bring on a price war.

An extreme example is the condition of the rubber industry, which twice engaged in a cutthroat competitive war, caused, perhaps, by personal antipathies as well as by more fundamental factors. The startling improvement in the mileage per tire outweighed the increasing use of automobles, so that total demand for tires was kept down. Crude rubber prices at the same time fluctuated beyond any possibility of planning, so that inventory losses were unpredictable and very large. The conjunction of all these forces resulted in years of chaos which hampered efficient development of the industry.

In almost every field, there is one "troublemaker" who gets out of hand. Most desirable, from the administrator's point of view, is a complacent follow-the-leader competition. This is especially so when there is a demand limited by other considerations. Whether there is collusion or custom, the effect is the same: prices remain stable. Competition becomes manifest in other forms—such as service and quality.

Potentially disturbing is the fear of a new competitor entering the field. In an expanding industry, such as automobile or rayon, this may be viewed complacently. Not so, if the demand is derived and limited. While new competition is less likely when a large investment is necessary, it is, by so much, more disastrous when it does occur.

This is what happened to the Limoges China industry during the nineteen-twenties. These manufacturers dominated the inexpensive market. Their patterns were well known and popular. Especially the name "Haviland" had a world-wide renown, until it was diminished by family splits. This favored position, however, was finally challenged through the rise, first of Czech manufacturers, then of Japanese. Their copies of the

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Limoges patterns were excellent; in addition, demand declined as vivid coloring became fashionable. Caught between these forces, the Limoges export industry collapsed.

In extreme instances, a new product sounds the death knell of an old industry. Slate roofing shingles have been well-nigh completely superseded by the manufactured variety; even wooden shingles have declined. No practicable readjustment of price policy was sufficient to meet the situation.

Prices in hosiery are set against a most complicated background: first, of rival materials, silk, rayon, nylon and cotton, each having its own variations of fineness and excellence; second, of weaves, which vary in type as well as in quality; and lastly, of the relative popularity of trade-marked names. The comparative ease of entering the industry constitutes a constant threat of upset to any established price policy. Such stability as has been achieved is a remarkable performance.

There is a small, but consistent, demand for furniture of carved oaken pieces based on old English or Flemish designs. The supply was controlled some years ago by one concern, which had a high degree of independence in naming price and conditions. This was exercised to a point that led to revolt. New producers came into the market; the domination was lost, and never regained. Similar overestimates of the force of an initial advantage are quite common.

Accurate analysis of pressures is the essence of the price administrator's task. With experience, based on past blunders and such experimentation as is practicable, a high degree of skill is attained. Were the economy a static one, these advantages could be pressed to the verge of complete control. While this seldom occurs, it does take place in those parts of the economy that are relatively static.

Monopoly Defined

Organized business, as has been shown, depends on the possession of those trade advantages which are the basis of continuity; but trade advantages are not synonymous with monopoly. They are necessary for survival, since frequently they serve

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merely as an offset to other advantages enjoyed by competitors. Indeed, the gaining of a trade advantage may increase costs beyond its value, for it is an expensive affair. Only occasionally does a combination of advantages — such as ownership of raw material, plus patents, plus a great distributive organization—create a situation in which the prospective purchaser has no practical alternative choice.

Normally, the seller is at a disadvantage in a strictly competitive market. He has an article to sell, which he must sell. If it is perishable, so much greater the pressure. Even a nonperishable commodity, however, is expensive to keep. Storage and handling expense must be reckoned with, and deterioration quickly sets in. In addition, the seller has expenses to meet. Only by continuous selling can he meet his continuing outlays.

In contrast, the purchaser has a relative degree of freedom. His needs can frequently be met by a series of alternative methods. Cash can easily be held for a more favorable time. Purchasers, then, have a range of choice from filling day-by-day necessity to making long-term commitments. The irregularity of demand is such that the uncontrolled market place causes fluctuations that are incompatible with the needs of an organization. Without some sort of control, organization becomes so precarious that its cost is prohibitive. The upkeep is so great that it cannot rest on the daily higgling of the market place.

The position of the farmer illustrates this perfectly. Practically, it is almost impossible to build up any advantage that gives him any control. Here and there, it has been done, as in Sunkist Oranges, the California fruit marketing, and the cranberry industry. But in the great staples, it has proved impossible. As farms have become, more and more, great business organizations, with high costs of upkeep, with increased capital outlay, they have required a higher degree of assurance that their selling prices would cover their expenses. To some extent diversification of crops has given flexibility in adjusting to market conditions; but, in itself, this is a tender reed when subjected to strain. As a last resort, farmers have turned to government to give them the necessary degree of stability.

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The administration of prices does not create monopoly, as long as the prospective purchaser can pass by the offering. It simply gives the seller the initiative, which may or may not be wisely used, in terms either of his own interest or of the public interest. Since administered prices are generally backed up by an accumulation of capital, the daily necessity for sales is replaced by a longer-term necessity. The same forces operate, but they operate more slowly and in a less restricted circle. The correctness of price cannot be immediately determined, since it rests on long-range results.

With a few notable exceptions, undue enhancement of price restricts sales. Even where competition from directly comparable articles does not exist, indirect competition is so powerful a force that consumers are led toward one style of expenditures as against another. The movie industry has taken away from vaudeville and theater, but probably its influence extends also to home expenditures and clothing. Inter-industry competition is an irregular, but at times a decisive, force. During the war, merchandising prospered largely because of the temporary disappearance of other industries—especially automobiles, housewares, building and maintenance.

Lack of imagination on the part of railroad and public utility administrators, who are mostly technicians rather than merchants, has hampered the development of these industries. While, in both cases, the organization holds such enormous advantage as to constitute an approach to monopoly, outside forces are also operative to compete for consumer dollars.

There is a school of thought which takes the view that if government can encourage competition and prevent monopoly, then progress and security will result. This appears to rest on a mistaken interpretation. Except in a few cases, there is no such thing as literal monopoly—recognizable and preventable. Rather, trade advantages of many types, of varying importance and permanence, run all through industry and commerce. Were this not so, all exchange would be on an auction basis—a condition which would be not only impracticable, but also sufficiently insecure to make prices and capital values jump about

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to an extent that would destroy continuity. Regular employment would be impossible.

The degree of monopoly that grows out of an accumulation of trade advantages is constantly increasing or diminishing; it must be watched and controlled. Even cases which are adjudged monopolistic at one time may at another time be classified as competitive. The long distance telephone and the air mail have together destroyed the telegraph monopoly. Rival forms of transportation have put a crimp in certain parts of railroad monopoly. Good roads have destroyed many local monopolies. The puzzling charge brought by the government against the American Medical Association hinges on the question of whether the regulating of the right to practice so controls the number of doctors as to constitute a monopoly.

In the long history of the Sherman Anti-Trust Law and its successors, the courts have sought unsuccessfully for an objective definition of monopoly. Mere size, records of price movements, frequency of price changes, conspiracy, understandings, leadership through dominance, outstanding efficiency, unfair methods—these criteria have all been applied. Next came the reasonableness of the restraint, and now the fact of conspiracy seems to be uppermost. None has proved to be an infallible guide.

We are groping toward a proper solution of a scheme of things that is neither monopoly nor competition in any strict sense. The seller, in order to protect himself against his primarily inferior position, sets about to achieve any advantage he can. Within limits, he builds an institution in the sense that there is some degree of permanence. In extreme circumstances, this so limits the choice of the buyer that it is he who comes to occupy the inferior position.

This brings up the question: at what point does the circumscribing of choice constitute such a permanent burden on the public as to justify its being classified as monopoly? Such situations, when they come to exist, are frequently temporary, yielding to the restless forces of invention and initiative. The apparently entrenched position of one year becomes an incubus

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the next. Generally it happens that the attempt to exploit a trade position results in its disintegration. Yet there is no doubt that the position of dominance attained by many concerns is liable to abuse. The freedom to fix a price policy may be used to stifle demand and temporarily, at least, exact all that the traffic will bear. This appears to be least justified in the withholding of a patented process or product. Yet even here, the destruction of present values may be so great as to offset the value of the new. Perhaps it can be introduced in such a skillful way as to minimize losses. This, however, is a problem of patents, rather than of monopoly, and seems to require special treatment of its own. It is only one of many forms through which trade advantage may become so determining as to be classed as monopoly.

The complex of industrial life centers on trade advantage. It is oversimplified when it is divided into competition and monopoly. In any workable sense, neither of these concepts describes more than a fringe of the economic forces through which articles are produced, evaluated and distributed. More accurately, this process operates through a series of pressure forces—economic, social and historical—guided, but not dominated, by business leaders in their rôle of administrators of price.

Monopoly is properly defined as such a degree of important, continuing control, however achieved, as to render the purchaser practically without freedom of choice. It is the ability to exploit a trade position without the necessity of maintaining it. The determination of this situation is a matter of opinion.

. . . . . .

The legal concept of monopoly does not coincide with the economic concept. Legally, there must be a dividing line which guides determination of the individual case. Economically, there is no dividing line; and none is possible. Trade advantage is coterminous with organized production and distribution; and large organizations could not exist without the permanence and stability which their trade advantages afford. Government lawsuits to prevent monopoly are of necessity brought on trivial

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grounds; the arguments turn on interpretations which appear economically unreal.

The power which trade advantage brings can be abused. It yields opportunity for anti-social prices and restrictions. On the other hand, it can be used beneficently, for lower price and increased quality. We are groping toward a scheme of things which will enhance the beneficence of great organization and minimize its abuse. This is neither socialism nor free enterprise; it is neither competition nor monopoly. It is on a different plane from any of these. The glorification of pure competition is as fantastic as its vilification. A new concept for social judgment must be found. That concept must turn around the relation of the present with the future; it must distinguish between the individual and the organization; it must define duties, as well as rights of stockholders, managers, employees and government. Concept and reality must be brought into harmony.

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GEOPOLITICS AND AMERICAN POST-WAR POLICY

THE term "geopolitics" has come to have an unpleasant connotation, for it suggests national unmorality, if not actual immorality. This is due in a large part to the unpleasant associations in its development, particularly the use the Nazis have made of geopolitics and the part that their leaders have had in its evolution. The Nazis have frequently used geopolitics to justify oppressive policies already embarked upon, and at other times to help determine the direction of their activities. Such a situation is not unusual, for many branches of knowledge have passed through a similar stage, a stage where there is little impartial professional scholarship, and an air of disrespectability or unreliability hangs over the actual body of knowledge. It is during this stage of development that application of the principles of a particular subject of study usually proves fruitful to only limited sections of society. The release of such a subject to the larger service of general welfare is, however, the usual but not inevitable result.

Geopolitics is the study of space-time-power relationships that affect nations in their dealings with one another. Many of the more ardent disciples seem to believe international relations are determined primarily by geopolitical considerations. This point of view does not give due weight to all the elements of national power: the political, the geographic, the economic, the demographic and the military. On the other hand, it should not be overlooked that geopolitics has created some part of the great body of general principles that helps to explain particular relationships. These efforts to generalize geopolitical knowledge are relatively recent, although the instances of sound geopolitical action are scattered throughout history. For example, the geopolitical significance of Pearl Harbor was recognized to some degree by the man on the street, while the purchase of Alaska

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and the acquisitions in the Caribbean had a geopolitical significance to those most responsible for their accession.[1] The Monroe Doctrine stems partly from an awareness of geopolitical advantages and disadvantages, while the creation of other modern empires could furnish comparable illustrations. Even where one Power is preponderant, actions have been taken which indicate sound applications of geopolitics. The withdrawal to the Rhine by the Roman legions under Augustus, and the strengthening during the first and second centuries of the frontiers of the provinces of Africa, Numidia and Mauretania, were both sound applications of space-time-power relationships.[2]

As was pointed out, the efforts to formulate principles of geopolitics are of more recent origin. The most prominently mentioned writers are Friedrich Ratzel, Rudolph Kjellen, Sir Halford Mackinder and Karl Haushofer.[3] Mackinder and Haushofer have developed their theories in such terms that policy is directly indicated. This is bound to occur when the author deliberately seems to justify certain events or channel events to come. There is less likelihood of bias or omissions in the conclusions reached, when the investigation is undertaken by persons with no axe to grind. Professional and impartial study also tends to make the subject matter less liable to moral judgment, and such opprobrium as is generated usually attaches to those who translate precept into practice. Geopolitics is, however, in the stage of development where those who will use the results of the investigations are very influential in charting the course such investigations shall take.

[1] For an account of the events and attitudes see Samuel F. Bemis, *A Diplomatic History of the United States* (Rev. ed. New York, 1942), "Seward regarded Alaska as a naval outpost toward Asia" (p. 399). For the Caribbean see chaps. 26, 28 and 29.

[2] For a discussion of those events, see M. Rostovtzeff, *A History of the Ancient World* (Rome, 1928), vol. II, pp. 194-195, 222-223.

[3] Critical discussions of the doctrines of geopolitics and their development are found in: Andreas Dorpalen, *The World of General Haushofer* (New York and Toronto, 1942); Hans W. Weigert, *Generals and Geographers* (New York and Toronto, 1942); Derwent Whittlesey, *et al.*, *German Stategy of World Conquest* (New York and Toronto, 1942); and Edmund A. Walsh, "An Essay on Geopolitics", *Syllabus on the Political Economy of Total War* (School of Foreign Service, Georgetown University, 1942), pp. 93-115.

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The conclusion should not be drawn from the foregoing comment that because geopolitics has been used to justify or further discreditable methods, and to enhance personal power, it must henceforth develop automatically for the welfare of larger groups of society. It could continue in its present rôle; and undoubtedly it would have so continued, if the Axis had been victorious. The opportunities for constructive applications of geopolitics are great, and we in this country cannot afford to neglect their importance, provided the United States assumes its share of international responsibility.[4]

There are two general conditions under which geopolitics may take a constructive outlook—constructive being used here in the sense of helping to foster conditions that encourage the maximum opportunities for the individual as a member of society.[5] These two conditions are: (1) a balance of power approach to international relations, and (2) an approach that involves an international organization with some sovereign power. The balance of power doctrine is constructive in the sense of the *Pax Britannica*, during which much advancement was possible. It is principally negative, however, because such a policy is intended to prevent an unfavorable accumulation of power by others, rather than promote conditions favorable for widespread advancement of the individual. This balance of power approach was the use Mackinder intended should be made of his geopolitical analysis, for his warnings were specifically against the control of the "Heartland" of Eurasia by a hostile Power.[6] An international organization, on the other hand, would be expected to help maintain peace between national states and support efforts that seek to promote opportunities for the individual. Let us first consider the rôle of geopolitics in a balance of power approach to international relations.

[4] The alternatives to responsibility are (1) our late benevolent isolationism and (2) our former opportunism, during which we expressed our great brotherly love for Colombia (1903), Mexico (1846), and the American Indian.

[5] Maximum opportunities for the individual are not necessarily traditional American opportunities, since American institutional expressions of freedom may be politically, economically and socially unacceptable or unworkable for other nations.

[6] *Democratic Ideals and Reality* (originally published in 1919, reprinted in 1942, New York). This hostile Power was Germany.

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It must be understood at the outset what balance of power implies. In the hands of an aggressor, or in the hands of a peace-loving nation, balance of power implies precisely the same attitude toward "friends" and allies. This policy means that the United States would choose its international allies just as Germany did, on the basis of their power and willingness to balance those regarded as the most vigorous opponents of the moment; and the United States would have to become just as agile in evading or modifying unpromising commitments as Britain has been during her successful use of the balance of power doctrine.

The application of the principles of geopolitics to an American balance of power policy should begin with the study of geopolitics from the point of view of the United States. This country has been largely ignored by those most responsible for the development of this branch of knowledge, though this country can boast of a few distinguished and creative scholars of geopolitics. The problem is one of arousing interest, training men and conducting research. If it is assumed that this can be accomplished, then geopolitics would find use in coördinating and giving a new element of approach to the conventional fields of international relations.

The economic field is the source of more international contacts than any other, and here the United States would have much opportunity to apply the principles of geopolitics. This nation would have to choose its current friends with an eye to their raw materials. These raw materials would be complementary to the economy of the United States, and the balance should be in favor of those allies whose materials were accessible in time of war or economic sanctions. Geopolitical knowledge would also be useful in indicating the markets that should be cultivated for the maximum development of power. High, and often discriminatory, American tariffs have been used with deadly effect; now deliberate direction could be added to the blast. American marketing might well be directed across the trade routes of the strongest competitors, with a chain of naval and air bases strung along behind.

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Geopolitical considerations could help direct the investment abroad of American capital. A little more money might be lost this way, but probably not a great deal more than by letting only the rate of return and supersalesmen channel the foreign investments. A strong balance of power is admirably supported by strong exchange blocs. The area of American minor satellites and its accompanying dollar bloc would have to be indicated. This country might be able to stand for an international clearing house, but dollars should not be replaced by Bancor or Unitas. In the matter of transportation, geopolities could furnish the answer to what land, sea and air lines should be subsidized. Commercial air lines would thus become a peacetime strategic air force.

Turning now from the economic field to that of armaments, it should be realized that, no matter which policy is pursued, balance of power or membership in some international organization, the United States will have to pay for the support of heavier armaments. Geopolitical analysis would be useful in choosing friends in terms of the degree to which their armaments augment American power. This will be especially true of foreign permanent installations such as air and naval bases that are complementary to American mobile forces. Time-space-power considerations can be most useful in strategically locating this nation's own armaments. The United States will have a large Navy, Air Force and Army after World War II. They must be kept large and be given strategically sound bases and supply lines. Just as the final tools of war have to be properly located, so must their makers and more direct suppliers. The more secretly this is done, the more imponderable the power.

In addition to the fields of armaments and economics, geopolitics would be useful when determining a balance of power policy as applied to the cultural field. Exchange students, military scholarships, beamed radio programs, foreign branches of American universities and other institutions, and other elements in the cultural field would be integrated to promote national power. Thus, if the geopoliticians have determined that South America must be secure as far south as the bulge of Brazil, that

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is an area indicated for concentrated effort. Or if China is needed to balance Japan, there is another area for cultivation.

Finally there is the political field. Geopolitical considerations would help to indicate the areas of most intensive effort. A balance of power policy demands that our diplomacy be overhauled, and that our diplomats be taught the fine art of using brass knuckles under velvet gloves. Should the Near East oil lands, for example, be indicated by the geopolitical experts as of paramount importance, then American diplomacy, treaties, trade agreements, and the like would be directed toward securing rights, promoting local good will, and matching other competitors in this area against each other. A dummy international organization could be useful, but the United States and her allies would have to maintain their voting majority in the holding company that pulls the strings.

The United States is relatively inexperienced in maintaining its equilibrium on the tight rope of international balance of power. World War I and the current conflict have nevertheless improved this nation's ability to do so. Many of the very things that have been indicated above as part of a peacetime balance of power policy are types of action that this nation has been forced to perfect during the prosecution of World War II. Witness the alliance with the U.S.S.R., American economic warfare, our Latin America policies, and the installation of bases for mobile armaments.

Turning now from a balance of power policy by the United States to a policy of sharing responsibility under some international organization, let us again inquire what use geopolitics might have. First, there is the need for geopoliticians, research, and a more developed body of knowledge. These efforts, however, should now be oriented in terms of the whole world, and would be a suitable task for an advisory section of the international organization.

In the economic field, the elements of the problems are not so very different, but the policy premised thereon should certainly be different. The problem of raw materials would now become one of denying old aggressors too easy an access to

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areas containing the raw materials that are the ingredients of another war. It would be very much to the point to have a balance sheet, together with a statement of the intake and utilization of raw materials of war. This would be area by area, and nation by nation. In the field of finance, an international organization could operate the exchange of some currency such as Bancor or Unitas, and prevent one nation from exploiting other currencies. International marketing and transportation frictions should be anticipated in part by geopolitical study, and perhaps some international control established in the sorest spots.

This control would be even more essential in the field of armaments. Space-time-power considerations indicate the ultimate internationalization of certain bases and some aspects of armaments. Complete internationalization is obviously not feasible today. The bases and armaments selected for such teratment should be complementary to those held by the national states, so that a full-scale war, as distinct from policing, would require the participation of forces from both the international authority and national states. This is more or less analogous to the two-key system of safety deposit vaults in banks.

In the political field, geopolitics would be useful to an international organization to assess the currents and keep its members apprised of their direction, or to take action if such were indicated. The service of geopolitics to the United States would be a check on the information of the international body.

The similarities are great between the rôle that geopolitics can play in a balance of power approach to international relations and an approach envisioning an international organization having some sovereignty. The principles of geopolitics should be independent of the policies pursued. The fundamental difference lies in the application of these principles. A balance of power policy demands that the United States *exploit* time-space-power relationships. An international organization establishes a system that seeks to *control* time-space-power relationships. No mistake should be made, however, about the direction in which balance of power leads the United States; its only logical

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conclusion is war. Nor should the strife inherent in establishing an international organization be overlooked. It took much struggle and a bloody Civil War to produce a small peaceful segment of this world—the United States, from thirteen bickering colonies. But more important, the logical conclusion of international organization is peace not war. Geopolitics must not be brushed aside merely because it has been a handmaiden to German imperialism. Analytical tools are as important in securing the benefits following World War II as material weapons were in winning the war. Geopolitics is one of these analytical tools.

DWIGHT P. FLANDERS

WEST POINT, N. Y.

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REVIEWS

The Big Three: The United States, Britain, Russia. By DAVID J. DALLIN. New Haven, Yale University Press, 1945.—ix, 292 pp. $2.75.

Hot controversy between coalition partners, once victory has been won, is a common phenomenon. The present discord among the major allies cannot, therefore, offer a sufficient explanation why, as Dallin puts it, the world should be haunted by the fear of another world war —obviously one between the principal victors. The alarm would be justified only if a basic conflict of vital interests existed between them. Dallin sets out to prove that such a conflict is in the making. Since, in his opinion, it goes back primarily to the present dangerous course of Soviet foreign policy, it is not surprising that this volume, like Dallin's three other recent publications, should center on Russia. The author has established his authority to speak as an expert on Russian foreign policy and on the less attractive aspects of the Stalinist régime; he deserves special attention when, in dealing with this same Russian problem in the larger framework of "The Big Three", he seeks to draw conclusions regarding the future peace of the world.

The foreign policies of Britain and the United States, according to the author, are an outgrowth of their geography and sea power. Britain, so the familiar thesis runs, has for centuries followed the one and only maxim that "the strongest state of Europe is the chief enemy of Britain", her coalitions and wars having been "without exception attacks against the strongest continental power." It is not explained why, if these coalitions were due to her initiative, she should so frequently have joined them belatedly and hesitatingly. But Dallin does not blame her for doing what any country in her position would have to do. Instead, he assumes that the United States, now having become the heir to Britain's rule of the seas, will necessarily be "bound to travel more or less along the same road as British policy in the past" and to oppose as a menace to her own security any all-European hegemony, and even more, we may assume, any all-Eurasian hegemony.

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Consequently there is danger of a major conflagration if it should appear that the Soviet Union is aspiring to such hegemony.

All through the nineteenth century, says the author, there was acute danger of war between Britain and Russia, although it was temporarily eclipsed by the ascendance of Germany. Britain was opposing the expansionism of the Tsars. The fact that Stalin is treading in the footsteps of his Tsarist predecessors and, as Dallin clearly demonstrates, is vigorously pushing every one of the old Russian claims in the West, the South and the East would suffice, therefore, to arouse apprehensions. But if the author is correct, the situation today contains even more dynamite. He interprets Stalin's foreign policy not as a mere continuation of the old nationalist line but as an "application of the world revolutionary principles of Leninism." For the sake of world revolution, then, the Bolsheviks are pushing their way to the open oceans, calling for a navy second to none, planning for a communist Germany and a communist China, for an "invincible bloc from Aachen to Vladivostok." Stalin is said to be "one of the most ardent advocates of these concepts." Statements by Stalin and other Soviet leaders, some as late as 1938 and 1939, lend substance to this thesis. Wrote the official party organ in 1939, "The mighty Soviet power must have the strongest sea and ocean navy in the world." However, after reading Dallin's vivid description of Stalin's unscrupulous and Machiavellian methods, one cannot help wondering whether the Bolshevik leaders may not be trying to fool their communist friends abroad by pretending to be concerned with objectives other than the promotion of Russia's traditional security interests. Dallin warns the Kremlin not to push its national or world revolutionary aims beyond reasonable limits. "If you have swallowed too much," he says, "you cannot stop, you must go further." The recent agreement between Moscow and Chungking, a refutation of some of Dallin's most categorical predictions, may be an indication that Moscow is aware of the limits set by the interests of her major allies.

If Dallin is too sure about the outcome of developments which he analyzes with rich insight and in a highly provocative manner, the dangers which he so impressively describes are nonetheless real. His book is a warning against "willful shortsightedness" and a valuable aid to any critical reader who is seeking to evaluate the chances of continued Big Three collaboration. The chapter dealing with the history of the relations between the United States and Russia should dispel any easy reliance on a kind of predestined harmony of interests between the two countries. *The Big Three* will irk those who blindly follow the

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Moscow line; it may unfortunately harden the prejudices of others who suspect evil intentions behind every move of the bolshevik régime. The question as to what the United States can do to make more likely a " peaceful solution " which the author desires is left unanswered.

ARNOLD WOLFERS

YALE UNIVERSITY

Backgrounds of Conflict: Ideas and Forms in World Politics. By KURT LONDON. New York, The Macmillan Company, 1945. —xvi, 487 pp. $3.75.

When this book was projected, the author tells us he had hoped to contribute something to the clarification of issues at stake in the war. But events, in Europe at least, outstripped him and the volume is presented now as a contribution to the " intellectual preparedness " which is necessary if peace is to be maintained. He has a simple thesis, which is developed logically and intelligently: the great danger facing democratic society is the continuing influence of Nazi-Fascist-Japanese ideologies even after the Axis Powers are all defeated; " a durable peace cannot be won until these convictions are overcome "; and we cannot overcome them until we fully understand what they are and how they have come to be. At the same time, democratic institutions must be reëxamined in the light of contemporary world problems so that they may be strengthened and improved.

In elaboration of this thesis, three chapters are presented on Nazi Germany, Fascist Italy and Japan, all grouped together under the general heading of " The Enemies of Democracy "; one chapter on the Soviet Union, which is treated sympathetically as a totalitarianism with strong democratic impulses; a chapter on Vichy France, the least satisfactory of the book, so far as the interpretation of historical backgrounds is concerned; and two chapters on the British Commonwealth and the United States. The narrative is generally straightforward, objective and lucid, although lacking the spark which could generate lively interest. Within the narrow framework of ideological analysis which the author set for himself, the treatment is adequate and will be serviceable to those who want a digest and synthesis of the accumulating literature in the field. One of the most commendable features, for a book of this type, is the emphasis which is given to the development of youth movements, educational organizations, cultural activities, and the planning for the post-war years in the democracies.

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It is regrettable that the author did not see fit to add a very short concluding chapter in which he could have correlated and sharpened the two dominating themes of his essay: the need for combatting totalitarian ideologies, and the need for strengthening democratic institutions. The punch will be lost for the casual reader, and he will be left somewhat at loose ends.

There are some unfortunate errors of fact, omissions and misstatements (although they are few for a volume so extensive in scope) which ought to be corrected if the book has another printing. It is said (p. 12) that "in Italy the authoritarian state existed first, and the party grew up within it." Actually, the two grew up together. The Fascist Party was formed in November 1921, not on March 23, 1919 (p. 143). It is rather curious to see the march on Rome referred to as a "relatively innocuous episode" (p. 144); this is obviously unhappy phrasing. The arbitrary statements (p. 248) to the effect that the Russian factory workers before 1917 "became as destitute as the small peasants or farm hands who earned too much to starve but too little to live"; that there was "no social legislation to speak of"; and that the revolution of 1917 was "systematically prepared by exiled radicals" all of whom "were disciples of Marx and Engels" are hardly worthy of this author. Russian unions, of course, do not act as agencies of collective bargaining in the commonly accepted sense, as is asserted (p. 273). One is somewhat puzzled to find (p. 288) that Stalin bought himself time by "concluding an economic treaty with Hitler in August, 1939." It is curious, too, to see (p. 292) the Soviet secret police referred to as the GPU instead of the present official NKVD. The whole section (pp. 334-341) dealing with the last days of democratic France needs rewriting. It seems to suffer from restricted and undigested reading. These are modest shortcomings in a book which is as generally sound and fair as this one.

C. Grove Haines

New York City

Europe Free and United. By Albert Guérard. Stanford University, Stanford University Press, London, Oxford University Press, 1945.—x, 206 pp. $2.50.

Mr. Guérard has a thesis. "I muster historical, i. e., long-range, arguments in support of a definite hypothesis." He seems to fail to understand why others cannot see as plainly as he that he has hit upon the one solution for the ills that beset Europe. He is so certain of his

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ground that he is already deeply preoccupied with the business of fashioning a European language code and with drawing up rules for a European police force ("a democratic élite"). For him the pace of history is too slow. He is an internationalist in a hurry.

Mr. Guérard firmly believes in the eventual development of a World State. The next step on the international scene, he says, will be a World Commonwealth of Regional Unions, in which the European Nation—"free and united"—will take its place. But certain conditions must be fulfilled. England must transcend her insularity, self-diffidence and "splendid isolation", and become a free and equal member of the European Commonwealth. The Russians must be willing to accept the idea that the Soviet world and Europe are "different" and for an indefinite period must remain friends, but apart. Germany must be given full equality of status, for a separate and wounded Germany would be an eternal menace. And the American people must rout the short-sighted politicians of Washington and London, whose aim is simple "restoration".

After these conditions have been met there will be "a genuine European nationalism in the healthy sense of the term—a deepening consciousness of a rich common tradition, of manifold common interests, of a goal to be striven for with one accord." In the New Europe "France and Germany will become rather shadowy geographical and cultural terms." There will be a European customs union, a federal banking system, a common currency, common social legislation, a unified police force and army, and eventually a common language—preferably Basic English.

On the German problem Mr. Guérard leans so far backwards that he almost topples over. He answers three objections to the acceptance of Germany in the European Union: (1) that between the Germans and the rest of mankind there are ineradicable differences; (2) that equality of status would mean "peace without victory"; and (3) that a European Union including Germany would turn into a union dominated by Germany.

On the vital third objection, Mr. Guérard says: "There is no reason to expect that in the European Assembly of tomorrow the Germans will vote solidly as Germans. . . .In a truly democratic Union, the Germans will vote as Communists, Social Democrats, bourgeois Liberals, and Conservatives." Here the author underestimates the force and power of German nationalism as well as the driving zeal of the Germans, at the current moment once again playing possum. The chances would be that the Germans, as the majority party in the European

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Assembly of tomorrow, would eventually exercise effective control of the government. It would not be long before the Germans, with a language bloc of 100 millions, would control the European army and police force. With the federal government of the proposed "free and united" Europe in the hands of the most populated Germanic states and with the federal force in German control, who would have won the war and the peace?

This is an eccentric book. Mr. Guérard flits from subject to subject with breath-taking pace. Yet at the same time, if one can have patience with the nervous style, it is a stimulating, provocative book. Mr. Guérard presents his point of view with great force and on occasion with brilliance and charm. Sometimes the humor becomes thin: "The one people that made soldiering a national industry were the Swiss, before they took to hotel-keeping." The footnotes, with few exceptions, have no *raison d'être*. Most of them belong in the text.

LOUIS L. SNYDER

THE CITY COLLEGE OF NEW YORK

Racial State: The German Nationalities Policy in the Protectorate of Bohemia-Moravia. By GERHARD JACOBY. New York, Institute of Jewish Affairs of the American Jewish Congress and World Jewish Congress, 1944.—xii, 355 pp. $3.00.

This book, a careful study, extremely well documented and in spite of the righteous indignation of the author always maintaining the objective reasoning of the argument, is the first comprehensive treatment of the Nazi experiment in Czechoslovakia. It had for the Germans great importance not only from the point of view of practical power politics, but also from that of principle; because the establishment of the "Protectorate of Bohemia-Moravia" was a kind of introduction to the manner, ways and means by which their ambitious plan of a general European domination by the master race should be accomplished. Though the spirit and method of establishing the Nazi system were in the essential points the same which they used in Germany proper, it showed considerable differences in the details.

As the author rightly states, the experiment was "the complete colonial subjection of an independent, highly civilized European people to the political, economic, and cultural domination of another European people." And whereas in Germany the Nazi system had an overwhelming popular support in the megalomania of German nationalism and in the economic and political advantages which even the common

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people enjoyed from foreign convict labor and the robbing of the natural and financial resources of the conquered countries, in the Protectorate not even pseudorational claims could be given for the subjection and exploitation of a former independent and highly prosperous country. Therefore, in the mind of the author, the experiment could be based only on force, terrorism and quislings.

It would be unjust, however, not to mention another source of Nazi domination to which the author does not give the right emphasis. This was the despair of many honest people who, after the abandonment of Czechoslovakia by her allies, the complete dismemberment of their country and the non-recognition even of the Munich pact, could see no other escape from their tragedy but a compromise with the Germans. After the crushing defeats of the Allies, the final victory of the Nazis seemed inevitable—and therefore the acceptance of their *Lebensraum*. This attitude was not necessarily cowardly and venal. It is a general lesson of history that the average man, oppressed by the daily cares of existence and the incertitude of the future, is not heroic, but tries simply to survive. And the words of a collaborationist, that "since the Czechs were not able to sing with the angels he was now prepared to howl with the wolves" and that he saw "no other way for Europe to live but through the victory of the Greater German Reich", were not merely cynical utterances of a quisling; they reflected the despair of a broad fraction of public opinion.

As similar examples abounded in France, Italy and practically all conquered countries, one could even ask what would have happened if, after their crushing victories, the Germans had offered real national autonomy and an efficient system of economic federalism to the subjected nations. And here is the essential point about the experiment with the Protectorate which the author brings convincingly to light through a minute analysis on the Nazi methods of segregation, assimilation, colonization, economic and political coördination, and depopulation. The experiment collapsed ignominiously in the horrors of Lidice and Lezaki, because it was devoid of any moral content, of any real spirit of coöperation. And what is even worse: it was based on the hypocrisy of pseudo legalism. It was the fruit of the degenerated German jurisprudence which ridiculed the law of nature and preached as the supreme axiom a *Voelkerrechtliche Grossraumordnung* the main principle of which was, according to a leading Nazi theorist, F. Carl Schmitt, "*Legality means what is formally correct.*" The great words of Gierke in defense of the law of nature proved to be prophetic: "If it is denied entry to the body of positive law, it flutters about the room

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like a ghost, and threatens to turn into a vampire which sucks the blood from the body of law.'" This ghost has destroyed not only the German experiment in the conquered countries, but Germany herself.

This was the policy which drove more and more Czechs into open revolt and found its culmination in the extirpation of the Jewry. Mr. Jacoby is of the opinion that this procedure was not a simple repetition of the Nazi brutalities in the Reich, a mixture of sadism, robbery and elimination of competitors, but had in the Protectorate another aim also. It showed to the Czechs, by nature not an anti-Semitic people, how far the bestiality of the Germans can go against a nation whom they regard as a hostile and dangerous element. It was a kind of indirect intimidation.

A number of useful statistics, official documents and a long, careful bibliography increase the value of this timely and important book.

OSCAR JÁSZI

CLARK UNIVERSITY

Germany: Economic and Labour Conditions under Fascism. By JURGEN KUCZYNSKI. New York, International Publishers, 1945.—vi, 234 pp. $2.50.

Civil Life in Wartime Germany: The Story of the Home Front. By MAX SEYDEWITZ. New York, The Viking Press, 1945.—viii, 448 pp. $3.50.

The controversy about what, in the words of Ranke, "actually happened" under National Socialism, and about the rôles which various groups and individuals played in the ludicrous tragedy, is by no means over. The great debate is bound to grow in intensity in the years to come, and will command the close attention of political scientists, just as (and because) it will be a permanent topic in international and (not only in German) domestic affairs. The concrete political implications will, of course, be very considerable. Among other things, Allied policy toward Germany will be shaped largely by the course of that controversy.

The two books here under review strongly and ably defend the thesis that the German workers have been the victims of Hitler's régime—a view which is shared by many writers, both non-German and German. Both authors endeavor to prove their point, not by praising or exculpating German labor, but by showing what the régime did to them.

Dr. Kuczynski, a German statistician and political economist who,

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he informs us, had been active in German underground work before fleeing to England, completed his study in November 1943 and published it in London in 1944. For the American edition, Albert Norden has written a short preface, citing some important economic and political developments which occurred in Germany prior to December 1944. Approximately one half of the book is dedicated to the examination of the "Structure and Economic Policy of German Fascism". Challenging the view that fascism is an "organic" or necessary phenomenon in industrial society, the author emphasizes that it was, on the contrary, the outcome of the specific historical and social circumstances of the Germany of the 1920's and 1930's, He maintains that Hitler's system, before and during the war which was its *raison d'être,* reverted to primitive, that is, anachronistic, forms of accumulation—or, more bluntly, to a "crude form of robbery", introducing "elements of barbarism" and "a considerable number of characteristics of feudal and slave-holding society." Quoting exhaustively from official German statistics, he reaches the conclusion that the main winner was monopolistic heavy industry, and that the main losers were the consumption goods industries, the peasants and, above all, the workers.

The second, somewhat longer part of the book describes labor conditions in Germany between 1933 and 1943. Again on the basis of official German figures, he summarizes his analysis of wages by saying that National Socialism "has not only succeeded in keeping down real wages during a period of increasing trade activity—which has never happened before in the history of capitalism—it has also succeeded in widening the division between the income of the worker and that of the rich to an extent and with a rapidity hitherto unknown." Scrutinizing the annual reports of the German Factory and Mine Inspection for the years 1933-1937, the author finds an alarming increase of working hours, of speed-up, of child and female labor, and of sickness and accident rates. For the war years, German statistics have, of course, been more recalcitrant; but the official data which the author has been able to collect reveal a steady worsening of labor conditions.

In parts, Kuczynski's book is too "high-pitched". How can indignation hope ever to match the wrong perpetrated by Hitlerism? And, on the other hand, how can doctrinaire language take the place of an explanation of the historic failure of Hitler's opponents? Otherwise, his study, and the same is true of Seydewitz', is closely reasoned and documented, and contains a great deal of factual and first-hand information.

Max Seydewitz belonged to a small group of Reichstag members

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who, in 1931, split with the Social Democratic Party and formed the "Socialist Workers' Party", out of dissatisfaction over the manner in which the Social Democratic Party—still the strongest in Parliament and powerful in the land—organized the fight for the republic. After the Swastika had come into power, he escaped to Prague; when it reached Prague, he fled to Oslo; when it reached Oslo he went to Sweden, and observed from that vantage point the developments in Germany. His book gives a chronology of events in Germany, based on decrees, newspaper articles and other National Socialist sources, and of the political temper of the Germans (mainly of the civilians but also of officers and soldiers) as conditioned by and mirrored in National Socialist policies and propaganda. For Kuczynski, the antagonism of the workers to a régime which took away all their liberties and brought them nothing but exhaustion, death and ruin is self-evident. For Seydewitz, the collapse of opposition in the fateful first weeks and months of 1933, and the subsequent slow and sanguineous revival of domestic opposition, form the main topics of discussion. The paralysis of the anti-Nazis in 1933 he ascribes to the dissensions among them, as against the unified leadership of the National Socialists. "The masses, fundamentally anti-Nazi, were dumbfounded by the unexpected meek capitulation, and their confidence in the anti-Fascist leadership collapsed forever." As the writer sees it, in the ensuing years opposition in Germany had to recover from that initial shock and, especially in 1938-1940, from the impression created by Hitler's successes. However, he is convinced that, despite the most cruel persecutions, the Fuehrer never succeeded in creating the much-propagandized "national unity" or *Volksgemeinschaft* (which is here awkwardly translated as the "one-great-commons").

Opposition came from many quarters; but "the Nazis have never ceased to consider labor their most stubborn and dangerous enemy." Seydewitz distinguishes, of course, between militant and disgruntled opposition, just as he distinguishes between fanatical and other National Socialists. The fundamental question is, however: to what extent did National Socialist indoctrination penetrate even the minds of the opposition? The propaganda took great pains in catering to views and prejudices of *all* groups, however much these opinions (and, therefore, the various official propaganda lines) contradicted each other. In a way, National Socialism was all things to all men. To what extent was—and is—German criticism against it an immanent criticism, that is, a criticism which, despite everything, starts from the premises of National Socialism; and to what extent is it genuine, that is, re-

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jects those premises? This question is not explicitly discussed. But Seydewitz is convinced that the transformation of Germany "into a truly democratic state, one that is prepared and ready to live peaceably together with other nations. . .could be attained most surely if, after the annihilation of National Socialist dictatorship, the forward-looking majority of the German people were allowed to work out the destiny of the country free from outside intervention." As far as punishment of the guilty, reparation of damage, and cleansing of Germany from National Socialism are concerned, Seydewitz would probably go as far as, if not farther than, the Allies; but he wants this job of penance done, as far as possible, by the Germans themselves.

JOHN H. E. FRIED

MONTREAL, CANADA

Japanese Militarism: Its Cause and Cure. By JOHN M. MAKI. New York, Alfred A. Knopf, 1945.—xi, 258, vi pp. $3.00.

This volume provides in compact form an analysis of the factors and forces that led to the development of Japan as a great military power committed to the policy of aggression. The author, an American of Japanese ancestry, now employed in the Far Eastern Division of the Office of War Information, was an instructor in Japanese history at the University of Washington until the evacuation of the Japanese from our Pacific coast after Pearl Harbor. His brilliant study, designed not merely to explain the origin and growth of Japanese militarism, but also to facilitate its complete and permanent destruction, is one of the notable contributions of the *Nisei* to our war effort.

The main thesis of the book is that present-day attitudes and institutions of the Japanese can be best understood by reference to the past. The author, therefore, uses the historical approach in his discussion of the emperor-cult, the authoritarian state, the political and economic oligarchy, and the other ideologies and institutions that have given militarism a place of dominance in the Japanese nation. This delving into ancient and medieval history to explain the nature of Japanese institutions has resulted in a serious and scholarly book far removed from the anecdotal and sensational writings of war correspondents. Fortunately, Mr. Maki possesses a lucid and attractive style which makes his book easy to read. Moreover, he subordinates his historical materials to the main purpose of illuminating the present situation, thus preventing the reader from losing interest when long excursions are made into Japan's eventful past.

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This historical survey provides convincing evidence that militarism is so deeply rooted in Japan that military defeat will do nothing more than lop off its branches. Militarism cannot be eliminated by destruction of its professional leaders. Its eradication is a post-war job which must be accomplished by the more liberal and enlightened Japanese themselves over a period of years.

The rebuilding of Japan along more sane and orderly lines, the author suggests, may not be accomplished until the nation has endured the sufferings of a chaotic, revolutionary period. The allied statesmen who would preserve the imperial institution as a means of preventing social and political chaos after the war are advocating a policy that will make Japan a threat to world peace in future years. The age-old system of exploitation of the common people is deeply entrenched in the imperial régime as is also the goal of empire-building by means of military conquests abroad. The reconstructed Japanese nation of the future must be freed from the incubus of the emperor-cult which has held back even the first steps toward a liberal government strong enough to prevent domination by the militarists.

The author insists that the rôle of the United Nations in rebuilding Japan's political institutions after the war must be limited to encouragement of the Japanese people to take the necessary steps in the right direction. In view of the meager advances made by Japanese liberal leaders during the past few decades, one wonders whether democratic forces can marshal sufficient strength to establish themselves unless they are given more tangible aid than mere encouragement.

If one were disposed to criticize this illuminating discussion of Japan's militarism, it would be the failure to supplement the historical analysis by greater attention to the serious agrarian and industrial problems which in recent years were an ever-present threat to the stability of the government. The Manchurian Incident was not merely an outcome of the militarists' lust for conquest abroad. A foreign war was needed to divert attention from serious domestic crises and to unify a nation that was being disrupted by the discontent of the submerged classes.

But whatever shortcomings the book may have, they are far outweighed by its points of excellence. Few will find serious fault with the author's point of view and main conclusions. Those who have been skeptical of the loyalty of our Japanese-Americans and have doubted their capacity to serve their country during these trying war days should read this book and have their doubts dispelled.

J. F. STEINER

UNIVERSITY OF WASHINGTON

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The Economics of Peace. By KENNETH E. BOULDING. New York, Prentice-Hall, Inc., 1945.—ix, 278 pp. $2.75.

It is now generally recognized that only a sound economic foundation can support an enduring superstructure of international peace. During the nineteenth century, under laissez faire, a reasonably satisfactory international equilibrium was maintained through the broad acceptance of multilateral trade and of the gold standard, and through reliance upon London as a clearinghouse, as well as a balance wheel and shock absorber, by the principal trading nations of the world.

World War I and its aftermath, however, wrecked the system. World War II has unquestionably given it the *coup de grâce*, and any proposal to revive it in its original form seems doomed to failure. Hence, the question arises, " what kind of an international system can be built, both politically and economically, that can meet the needs of what Wendell Willkie well called ' one world ' ? "

Some hopeful steps in this direction have already been taken. U.N.R.R.A., Bretton Woods, and the United Nations Charter, together constitute an excellent beginning. They are, however, only a beginning, and they, and any further *ad hoc* adjustments, must be made to fit into a broad and inclusive over-all design of a new world order.

It is from this over-all point of view that Professor Boulding has written his book. He approaches the problem, however, with an understanding of the part that our own country must play in the world drama. He shares the view that essential to our contribution to an orderly and peaceful world is the development of a national policy ensuring prosperity and full employment at home. He regards our foreign trade, our foreign investments, etc., merely as segments of the composite national economic structure, and political policies concerning them must, therefore, fit harmoniously into our international political policy as a whole. This, he believes, will require that we do our part in helping ravaged countries rebuild their shattered economies and that we modify our protective tariff system and be willing to absorb greatly expanded imports. If these things are done, it may be assumed that our exports will pretty largely take care of themselves.

Professor Boulding is a Keynesian in his approach to national economic policy—how much so is sufficiently indicated in the following quotation:

> One of the most important things that has happened in the last twenty years—more important, perhaps, for the long-run welfare of humanity

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> than the foamings of dictators or even the fortunes of war—has been the development of a body of thought on the subject of depressions which at last is commanding general acceptance among economists and which seems to provide an adequate basis for public policy. This is the theory that has grown up around the name of Lord Keynes (p. 126).

However, his own plan for achieving the Keynesian equilibrium he calls the "Adjustable Tax Plan". It is through flexible taxation rather than through governmental expenditure that Professor Boulding expects to ensure the desired stabilization of the national economy. Relying mainly on the income tax payable at the source, he would have frequent readjustments of rates. He says:

> The rate of tax should depend on the *movement* of money income during the past month. Thus, if money income has risen during the past month, beyond an amount designated, the rate of tax in the next month should be increased in order to prevent inflation. If the money income has declined during the past month, the rate of tax should be lowered in order to counteract this decline in income and so to prevent deflation and unemployment (p. 162).

Should the decline in income be great enough, "negative taxation"—or payments by the government to the taxpayer—may become necessary. In response to the question, "why adjust taxes rather than governmental expenditures in this connection?", Professor Boulding urges that public works, social security expenditures, etc., should be considered on their own merits and handled accordingly. "Once we get out of our heads", he says, "that the primary purpose of taxation is to 'raise money for the government to spend' we can see the true purpose of taxation, as the most powerful weapon in our hands for the stabilizing of money prices and incomes" (p. 165).

Professor Boulding has a separate chapter on "The Reconstruction of International Trade". While by no means disregrading the importance of such trade and the urgency of intelligent policies with respect to it, he proposes, as already indicated, to rely on the helpful implications of sound national policies of prosperity and full employment on the part of the world's larger nations. Using stability of exchange rates as a test of satisfactory international equilibrium, he says: "In practice, it should not prove impossible to combine an adjustable tax plan with reasonably stable exchange rates among *all those countries that followed the plan.*"

The statistical and administrative difficulties in a plan of "adjustable taxation" Professor Boulding does not discuss—although it must be

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admitted that such difficulties would appear to be not greatly more serious than those involved in the " public expenditure " application of the Keynesian formula.

In general the book is divided into two parts. Part I, containing four chapters, is entitled " The Economics of Reconstruction ". Part II, entitled " The Economics of Reform ", is made up of ten chapters. As a whole the book represents a pretty comprehensive presentation of Professor Boulding's whole economic philosophy. Much of it seems elementary, doubtless owing to the fact that the book is intended for intelligent general readers rather than for special students in the field. The format, characterized by individual paragraph headings in bold type, and the almost complete absence of references and footnotes, are similarly indicative. This may also explain the rather dogmatic and pontifical tone of the book. It is, however, a very interesting book to read—especially so three chapters on right- and left-wing illusions—and every now and then one rejoices to encounter a particularly apt and well-turned phrase or sentence.

E. E. AGGER

RUTGERS UNIVERSITY

America's Role in the World Economy. By ALVIN H. HANSEN. New York, W. W. Norton & Co., 1945.—197 pp. $2.50.

Today, a book on economics, unless it deals entirely with " pure theory ", should be reviewed immediately on publication. Indeed, the author is fortunate if it is not out of date before he gets the proof sheets. The present book was written after the Bretton Woods and Dumbarton Oaks conferences, but before the San Francisco Conference, the Berlin Conference of the Big Three, and of course before the London Conference of Ministers and the current Anglo-American meeting in Washington, which is slowly evolving a method acceptable to both the British and our own Congress (we hope) to help England out of the financial hole into which the war has plunged her.

The book may in a sense be " dated ", but by no means is it out of date, although more than half the space is devoted to exposition of the functions of the International Bank for Reconstruction and Development, the International Monetary Fund, U.N.R.R.A., the International Food and Agricultural Organization, I.L.O., and the Economic and Social Council of U.N.O., together with evaluations of the leading criticisms which were made of these agencies when they were yet in

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the planning stage. Even though the International Bank and Monetary Fund and the Economic and Social Council are now *faits accomplis*, Hansen's discussion of them and the problems which confront them affords the lay reader—to whom the book is addressed—a clear view, minus confusing details, not only of what the world is up against in the task of rehabilitating international trade and stabilizing international exchange and finance, but of the principles on which successful performance of the task must be based. In particular, these chapters, together with the preceding discussion of post-war fears and hopes and the succeeding chapters on the interrelations of imports, exports, and domestic full employment, can hardly fail to discourage a revival of myopic isolationism and dissolve the fixed ideas of persons trained by the classical theory of international trade—comparative cost and reciprocal demand—to a sturdy belief in the automaticity of the unregulated "law" of supply and demand in international economy. All countries are on some form of managed paper-money basis, with the rôle and function of gold somewhat nebulous. Most countries have resorted, either offensively or defensively, to currency depreciation and various devices for obstructing trade. Obstructive tactics and "beggar-my-neighbor" policies had throttled down international trade in the inter-war period and thrown finance and exchange rates into chaotic condition. The depression, partly as cause and partly as effect, intensified the confusion and accelerated the decline, and World War II heaped a desperate load of debt on our allies (witness the plight of England), which they can hope to get out from under only by the reconstruction of their industries and, with our help, recovery of their export trade. These things will not work themselves out to any acceptable or tolerable conclusion by any "natural" process or inevitable "law" of the market. Whether we like it or not, world economy, upon which, as is now abundantly obvious, national prosperity depends, is now *political* economy, and that means, literally, a managed economy. Unless the management is by intelligent, patient and constructive international coöperation, we shall, from the sheer impulses of fear, fall back into the tragedy of the blind and narrow nationalism which ushered in the war.

The idea that world security depends on world economic organization will hardly now be questioned, however strong the sentiment for domestic "free" enterprise may be. It is indeed heartening to observe that so widely influential an organization as the business men's Committee for Economic Development sees eye to eye with Hansen on

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international organization.[1] Whether organized labor has in its service enough broad-gauged experts to deter it from policies which may render difficult the attainment of peacetime full employment remains to be seen.

It must be remembered that Hansen, with Keynes, holds that investment, to take up the slack between income and consumer spending, is the essential, if not the only, process by which full employment can be maintained. On the one hand, he argues, full employment and absence of depression in the United States are essential to stability and prosperity in the rest of the world; and, on the other hand, he emphasizes the necessity for the economic rehabilitation of Europe, especially England, and the industrial development of backward countries, as prime conditions for building up international trade, stabilization of exchange, provision of adequate market for American goods, and full employment everywhere. These objectives require billions of new investment, and investment funds must come, for a time at least, mainly from the United States. In any rational perspective this is far from meaning that the United States is to "play Santa Claus" to the rest of the world—far from it, for under proper provision that they are to be spent only for constructive purposes, foreign loans, at however low interest, are distinctly to our own long-run advantage.

The domestic and world situations are so closely interrelated that we seem to be on the horns of a dilemma. Hansen definitely holds that world economic stability depends on reasonably full employment in the United States, and that we cannot play the rôle required of us in the international economy unless we set our own house in order and avoid any more serious depressions. On the other hand, considering our vastly augmented productive capacity, we cannot attain full employment in the absence of a large export market. And that will not be at our disposal until other nations are able to export enough goods to build up dollar balances with which to buy our exports. The only way out of this dilemma seems to be an advance on all fronts, domestic and international, at once. As Hansen says, there is no point in arguing which part of the international program should come first. Each supports and reinforces the others, and the important thing is to start, at as many points as we can. (We have now made the main start, by providing for the International Bank and Monetary Fund.)

[1] *International Trade, Foreign Investment, and Domestic Employment: A Statement on National Policy*, by the Research Committee of the Committee for Economic Development, June 1945.

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Obstacles to trade should be removed as rapidly as practicable, but this task should be undertaken side by side with positive measures for economic development and expansion throughout the world.

In this early post-war period, it may seem to many that the task is insuperably difficult, and we shall have recurrent reminders of its difficulty. Currently, for example, there is England's huge foreign debt and the recalcitrant problem of the sterling blocked balances. But the problems are not insuperable, for the simple reason that we have only chaos as an alternative to their solution. Hansen, for the first time, has essayed a book for the lay reader, in a field full of technicalities, upon which even experts sometimes disagree. There are plenty of economists as well as laymen who have no sure understanding of international trade and finance. In presenting to the general reader the international economic situation as it is today, together with the significance of plans and proposals for bringing order to it, Hansen has accomplished a needed performance. He has done this by ignoring or avoiding complex technicalities, or by clear and simple exposition where they could not be avoided. The book is not over the head of the intelligent business man who is willing to face facts and their meaning. And it certainly will do no harm to the economists and political scientists who, it is to be hoped, will find time to read it.

A. B. WOLFE

OHIO STATE UNIVERSITY

The United States in a Multi-national Economy. By JACOB VINER and OTHERS. New York, Council on Foreign Relations, 1945.—viii, 174 pp. $2.00.

The seven essays composing this book originated in discussions of a group of economists, bankers and business men brought together by the Council on Foreign Relations as a part of its studies of American interests in the war and the peace. There is unity in the subject matter of the essays in that they are crucial and interrelated questions of post-war policy in which the United States is concerned, all of which can be solved only by multilateral rather than unilateral action. The authors have attempted to contribute to the formulation of a comprehensive post-war policy for the United States in the field of economic coöperation.

In his essay, "The American Interest in the Colonial Problem",

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Jacob Viner attributes the anti-colonial sentiment in the United States to such diverse factors as the tradition of independence, missionary efforts in colonial regions, interest in the "open door" policy, and an almost complete obliviousness on the part of the American public to any previous or current possession of colonies. He feels that, judging from official American statements, the United States has no desire for additional territory (certain air and naval bases excepted), and that the United States policy would support the principle of self-determination of government and the preparedness of backward areas for such government, together with the establishment of minimum standards of welfare and personal rights and protection against any form of exploitation. However, in the interest of reducing friction and speeding the solution of the colonial problem, he exhorts the United States to caution and reserve before it advances, of its own initiative, definite proposals on specific phases of the colonial problem. It is suggested that leadership be left to those governments which have the most at stake therein.

Of current interest are the essays by Percy W. Bidwell on "Postwar Controls of the German Economy" and William Diebold, Jr., on "What Shall Germany Pay?" Dr. Bidwell proceeds from the assumption that the basic purpose in applying to post-war Germany any measures of control, whether political or economic, should be to lay the foundation for a durable peace. Hence, in judging each type of post-war control proposed for Germany, he inquires: Will it be effective in preventing aggression? Is it practically enforceable? What will be its effect on the trade, production and employment of the rest of the world, particularly of Europe? Dr. Bidwell feels that ideally it would be desirable to choose controls that would keep Germany weak in a military sense without interfering with the processes of economic recovery. The complete destruction of German industry seems the negative approach to a durable peace, especially since German industry is essential to the restoration of a prosperous Europe. To Dr. Bidwell the more positive and profound approach to security is the establishment, by the victors, of an international agreement to restrain aggression by force.

Dr. Diebold has presented a concise review of the problems of reparations payment, including methods of payment and possible effects upon Germany, recipients and third countries. He has the courage to say that, all things taken into consideration, the simplest and safest policy for the victors in this war might be to reject the idea of repara-

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tions altogether. However, since this policy seems unlikely of adoption, he proposes a United Nations Reparations Commission, whose first task would be to plan and manage reparations with a view to the results that can be obtained rather than in response to political pressures or desire for retribution. A prime function of reparations would be to speed reconstruction in Europe, without at the same time depressing the German economy below the level of safety for itself and the countries surrounding it.

In his essay, "International Monetary and Financial Programs", Alvin H. Hansen makes a plea for United States support of international economic institutions adequate to achieve the necessary stability for development and progress as a complement to world political federation. Two such institutions would be the International Bank for Reconstruction and Development and the International Monetary Fund. The functions of both these institutions are presented simply and clearly.

The essay, "The American Merchant Marine after the War", by William Diebold, Jr., reviews the development of our merchant fleet during the war and suggests that United States post-war policy be guided by the principle that international shipping should be carried on under conditions permitting the most economic allocation of cargoes, vessels and routes. The only legitimate departure from this principle would be for the purpose of national defense. Dr. Diebold fears, and with good reason, that a false idea of national interest based on "the goodness of bigness" and what Veblen called "chauvinistic predilections" may guide us, rather than a true evaluation of national interest.

The statement that "only if the President's original purpose, to avoid the creation of burdensome war debts, is actually accomplished will lend-lease have had a full measure of success" summarizes implicitly the recommended policy of Arthur D. Gayers' essay on "Economic Aspects of Lend-Lease".

The position is taken in the essay by Percy W. Bidwell on "The Expansion of International Trade" that a multi-national convention covering all the more important aspects of commercial policy and the establishment of a United Nations Trade Commission are the most promising methods to accomplish the reduction and removal of trade barriers in the countries of advanced industrial development, to restrain the exaggerated and uneconomical use of protective tariffs by countries that are backward industrially, and to permit the accommodation of trading policies of state trading with those of private

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enterprises. The essay contains an earnest plea for tariff reduction and for leadership in this field by the United States.

The authors are frank in their recognition of the shortcomings in United States international economic policy during the years following World War I and appreciate the fact that there are dangerous possibilities of our repeating earlier mistakes. All are motivated by the conviction that the interests of the United States are best served by such international economic policies as will insure the highest level of welfare in all countries. This is taking the long view. Study groups concerned with international economic problems and policies will find the book especially useful. It is also recommended vest-pocket literature for American representatives at the post-war peace and conference tables. We cannot afford another case of international economic myopia.

ALLEN T. BONNELL

WASHINGTON, D. C.

The Economics of Demobilization. By E. JAY HOWENSTINE, JR. Introduction by Alvin H. Hansen. Washington, Public Affairs Press, 1944.—336 pp. $3.75; paper $3.25.

This volume represents probably the best over-all effort published during World War II on the subject of demobilization. However, it is spread thin over much. Roughly, two thirds of the work is devoted to World War I.

In discussing war contract termination, the author has, in the main, missed the "technical problems" involved. But from a more theoretical point of view there is no effort at integration of the termination problem with other aspects of demobilization, such as the title of the volume might suggest. Similarly, in the chapter (xi) on discharge of soldiers from the Army, there is little digging at the vitals. While decrying discharge of men on a "fast as can be" basis, the author never meets the argument that has been the nub of *soldier* opinion in this war and the last (unless the statement in another chapter, at pp. 61, 62, can be so considered): "Why keep us in the Army in order to release us as jobs become available? We can loaf more pleasantly out of the Army than in; it would cost less to pay us $50 a month out of the Army rather than $50 *plus* while in the Army for the same period. Besides, any plan that releases men as specific jobs come up is bound to break down for many reasons, and there'll be cutthroat competition no matter when we get out, etc." Only a passing reference is made

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(p. 135) to British experience with "planning" of discharges after World War I. In steering between the Scylla of platitudes and the Charybdis of detail, the author crashes on Scylla.

An excellent opportunity is missed to bind together such matters as "The Employment Service Fiasco", "The End of Controls", "Demobilization of the Armed Forces", "Contract Cancellations", "Demobilization Labor Policies", "The Public Works Program" (chs. x-xiv), "Government Surpluses and Prices", "Treasury Department Policies", "Federal Reserve Bank Policies" (chs. xxii-xxiv), etc., by the "fiscal" approach. It is axiomatic that war introduces a singleness of purpose into economics that is never present in peacetime. War presents the one period in economic life when "value" problems are the simplest because the criteria of optimum achievement are the most empirical. The transition from war to peace therefore, from the viewpoint of "compensatory" fiscal policy, affords the best "proving ground" for a theoretical discussion. The wartime interrelation of taxes, treasury financing, reserve policy, rationing and price control, export-import control, contract termination and surplus property, labor, army discharges, public works, etc., suggests fertile ground for an "economics of demobilization". Such a synthesis would justify the sketchy treatment of the "factual" background of the several topics that is present. As Hansen rightly observes in the Introduction: "It would be a fatal mistake to assume that history repeats itself." Just as the engineering-production experiences of World War I were from many points of view rather worthless in planning the similar function in this war, so the crudities of demobilization in World War I (e. g., in the field of war contract termination) are not valuable as guideposts in present planning.

Generally speaking, the economic philosophy expressed in the three chapters—"The 'Hands-Off' Policy", the "Mythology of Natural Forces" and "The Controlled Market"—belongs to what is termed "compensatory" thinking, though the author suffers more from eclecticism than abler exponents of such thinking. Much space is used in pushing over paper men. The analysis presented in these chapters carries some implications. It is reasonably clear that government was unprepared to handle demobilization after World War I—there were no plans. Industry worked out its own salvation. The author (p. 298) generally concurs in Hardy's conclusion that this probably was as it should have been. However, the Howenstine analysis does not bring out that current planning by industry for demobilization is similar to that in World War I in relation to government; to this point

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in World War II demobilization planning, industry very definitely has been leading government to such an extent that there is not much coordination. Serious monopoly and other problems will develop if this trend continues. In short the particular brand of laissez-faire theory with which the author does battle is not a live issue when considering World War II industry. Even as applied to World War I there is oversimplification of "Wilsonian" economic theory.

But withal, the volume has merits for work on the college level and will be of value in future years as a survey for those who have not passed through the experiences of this war.

ERWIN ESSER NEMMERS

MILWAUKEE, WIS.

Justice in Transportation: An Exposé of Monopoly Control. By ARNE C. WIPRUD. With an Introduction by Thurman Arnold. Chicago and New York, Ziff-Davis Publishing Company, 1945.—xxii, 197 pp. $2.50.

Since 1910, when the Mann-Elkins amendment to the Act to Regulate Commerce authorized the Interstate Commerce Commission to suspend—permanently if need be—the operation of proposed changes in rates, the railroads of the United States have openly maintained organizations known usually as "traffic associations", through which they endeavor to iron out their differences on rate matters, and act with unanimity in making rates on competitive traffic. It has often been pointed out that this coöperation among the railroads was technically a violation of the Sherman Anti-Trust Law. This act prohibits "every combination in restraint of trade", and the Supreme Court, in its interpretation of the law, however lenient it may have been with certain forms of combinations, has, without qualification, sternly condemned all combinations which have for their avowed purpose the establishment of price agreements. It should be said, however, that the Court has not been called upon yet to interpret the law in connection with a price agreement negotiated by a closely regulated public utility such as a railroad. In 1897 and again in 1898 the Court was outspoken in its condemnation of railroad rate agreements, but this was several years before the Interstate Commerce Commission began to exercise virtually complete authority over railroad charges.

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Until recently the Department of Justice ignored the existence of the railroad traffic associations and their rate committees. The Interstate Commerce Commission has, on more than one occasion, given them a clean bill of health, and individual members of the Commission have declared them to be a useful, well-nigh indispensable, part of railroad rate-making machinery. Congress, following its customary practice of letting sleeping dogs lie, has taken no step to legalize the actions of the traffic associations, though it gave a legal lease of life to similar organizations of steamship operators.

The inevitable had to happen. A Department of Justice arose which " knew not Joseph ". It started on the warpath against the traffic associations, declaring them to be dangerous combinations of the kind prohibited by the Sherman Act. Suit was brought in the federal courts to secure their dissolution and put an end to their nefarious conspiracies. After this both the Department of Justice and the railroads began to try the case in the press, in public forums, and in circulars, pamphlets and books—each side of course castigating the other for such " un-American " conduct.

This book presents the case for the prosecution. Probably a better title would be " The Department of Justice on Transportation ". The author was until recently a member of the Antitrust Division of the Department, and took a leading part in the investigations which preceded the filing of the antitrust suits.

Despite the fact that Mr. Wiprud exercises the prosecutor's customary prerogative of emphasizing but one side of the case, exaggerates a trifle in discussing " overcapitalization " and a few other matters, and falls into grievous error occasionally when dealing with certain technical aspects of rate making—as for example, on page 80, where he speaks of " interterritorial classification ratings " and says they are handled by the Consolidated Classification Committee—he presents his arguments clearly, concisely and interestingly, and with such documentation as to leave no doubt of the factual correctness of most of what he has to say.

This book should be read without preconception or prejudice; but, of course, it won't be. Railroad managers, by and large, do not like it. Most of them see red when they read it, only, unlike most of the red they see when they look toward Washington, this is red with a small " r ". For this is not a New Deal treatise advocating a " planned economy ". This book goes all out for private enterprise. It is Hayek

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out-Hayeked, though ever so much more readable than the *Road to Serfdom*. It is "again" monopoly in all its manifestations; it is for the freest of free competition, though of course there must be no illegal holds or other foul play.

A review of the book, written by a brilliant and distinguished railroad attorney, was published recently in the *Railway Age*, and reprints widely distributed by various railroad organizations. This review takes Wiprud severely to task for disregarding or ignoring the fact that railroad rate agreements have been made openly for many years, that the practice has received the sanction of the Interstate Commerce Commission, and the warm approval of many government officials. The review contends that prosperity and stability in transportation could not be maintained without coöperative action by the carriers. The inference is that Mr. Wiprud does not know what has been going on for the last thirty years, during which the railroads have conducted their business as if there were no Sherman Act.

But this is not so. Mr. Wiprud does know what has been going on, and his book proves it. He knows all about rate agreements, certificates of public convenience, banker control, regional discrimination, and many other things by which he claims the railroads are trying to promote "scarcity economy" in transportation. The point is that Mr. Wiprud thinks these things are all wrong, while railroad management thinks they are all right. Mr. Wiprud believes that the monopolistic practices are immoral, and that they do a great disservice to the public by inflicting upon it an inefficient, costly, often discriminatory service, when the transportation industry should be bending its efforts to reduce both costs and rates and give a more adequate service. He is outspoken in his conviction that the Interstate Commerce Commission's "approval and encouragement" of the efforts of the "transportation industry to organize itself for private group action in rate making" have been highly reprehensible.

That is not all. Mr. Wiprud believes the actions of the railroads and of the Commission to have been not only immoral but illegal. He says bluntly: "In thus administering the Interstate Commerce Act, the Commission ignored the prohibitions of the Sherman Anti-Trust Act." He does not believe that the Sherman Act has been repealed or modified, even by implication, with respect to railroad rate agreements. He pleads for the enforcement of the law.

There is some reason to believe that Mr. Wiprud may be more nearly right in his interpretation of the law and of the facts than the railroads

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have been. The decision of the Supreme Court, in which it gave permission to the state of Georgia to file suit against certain railroad associations as "conspiracies", and the long delayed decision of the Interstate Commerce Commission in the *Southern Class Rates* case are giving the railroads something to worry about. They are industriously urging Congress to pass the Bulwinkle bill, which gives legal sanction to their rate agreements.

Mr. Wiprud's book makes the issues clear. We are having a bitter controversy over transportation policy. We shall have to choose, apparently, between a " free " transportation system, in which competition prevails, such as Mr. Wiprud favors, and a " planned " transportation system, such as the carriers prefer—provided, of course, they are permitted to do most of the planning.

In view of what has happened in the long course of railroad history, in which both freedom and regulation have been tried, one cannot help having a certain measure of sympathy for railroad management's belief that Mr. Wiprud is inclined to stress too greatly the letter of the law. This sympathy might be greater if the railroads themselves had not always been such sticklers for the letter. From the time they succeeded in having the original Act to Regulate Commerce emasculated to the recent years when, through the holding company device, they performed acts which the law forbade them to do directly, the railroads have been notorious for violation and evasion of the spirit of our regulatory statutes, by appealing to the threadbare excuse that it was " not so nominated in the bond ". They have been outstanding in making use of what Theodore Roosevelt called " the great lawyer who employs his talent and his learning in the highly remunerative task of enabling a very wealthy client to override or circumvent the law." The ecstatic affection which the railroads now display for the Interstate Commerce Commission and the " principle of regulation " does not make a favorable impression on those who can remember how they once so successfully dissembled their love for these things.

Perhaps Mr. Wiprud's book will have a cleansing influence. It may awaken all the agencies responsible for the welfare of the transportation business of the country—whether corporation director, prosecutor, or administrative officer—to a clearer sense of their responsibility.

THURMAN W. VAN METRE

COLUMBIA UNIVERSITY

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Railroad Social Insurance: Favored Treatment versus *Uniform Social Insurance.* By RAINARD B. ROBBINS. New York and Washington, American Enterprise Association, Inc., 1945.—82 pp. $.50.

Mr. Robbins' compact little pamphlet presents the results of his study of the benefits provided under the Railroad Retirement Act and of the changes proposed in H.R. 1362 (the Crosser bill). His study, however, as the subtitle implies, goes far beyond an analysis of the organizational and actuarial features of the current and proposed systems. This analysis is presented but its purpose is to serve as groundwork for a more important and more difficult task. This is to examine and evaluate the principles, if any, that underlie the railroad social insurance system of today, and in turn to learn whether these principles are consistent with those of a national social insurance plan suitable for our democracy.

The basic question the author poses is: why a separate and preferred social insurance system for railroad workers? That he is one of the first, if not the first, to raise this question tells a story. Americans have become so accustomed to the assumption of the railroad workers that they are different from other workers that to many the question itself will come as a shock. The first railroad pension system (declared unconstitutional in 1935) was with us, it is true, before the Social Security Act, but the precedence and preference themselves are a symbol of our attitude toward railway labor. Mr. Robbins examines the assumption that railway workers are a special group on the ground that (1) the group is relatively permanent and (2) it requires skills superior to those in other industries. His statistics are admittedly neither refined nor complete but his conclusion that the railroaders' case is not proved can hardly be disputed.

The reason railroad employers raised so few questions about the law enacted in 1937 is not difficult to discover. Social insurance was in the air; the rapidly changing climate of opinion was increasingly discouraging to the earlier strict-constructionist position of the roads, upheld by the United States Supreme Court in 1935. There was, in view of this change, solid comfort for railroad employers in an arrangement that proposed to make a federal government obligation of the so-called " earned " benefits promised, but often not too certain, under existing private and often unfunded retirement plans. There was even greater comfort in the general provision of the 1937 law that promised benefits for service prior to the inauguration of the plan. From the employer point of view there were other factors in the situ-

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ation but the financial was controlling. The extent of taxpayer responsibility in the railway retirement scheme is suggested by the gap between the Railroad Retirement Board's estimate of 14 to 15 per cent of payroll as the ultimate cost of retirement benefits and the maximum contribution rate of 7.5 per cent provided (after 1948) to meet the cost of these benefits.

Mr. Robbins examines carefully and dispassionately the problems that result from this preferential status of railroad workers. They are serious and numerous. One has been suggested in the startling proportion of cost the taxpayer is expected to take over in the not-so-distant future. (The railroad user's share, itself not inconsiderable, can hardly be ignored either, although it generally is.) And if for rail workers, why not for workers in other interstate transportation and communication industries? And why not those in insurance, just now added to industries held to be operating in interstate trade? But the most serious question of policy is that raised by the sharp difference in treatment between beneficiaries under the preferred system and those under the federal Social Security Act. Already the complications, the duplications and the anomalies, so called, resulting from overlapping coverage and dissimilar benefit qualifications and scales are a source of major concern to the responsible administrative bodies, and their troubles are only beginning.

But these problems, annoying, costly and needless as they are, are not the chief indictment against the current combination of retirement systems. Multiplans, with different coverage, benefit qualifications, benefit scales and financial bases and with a different sharing of financial burden between beneficiaries and the public treasury, are unfair and undemocratic. If railroad retirement insurance is social insurance, as the Railroad Retirement Board says it is, *all* the implications of that status must in fairness be taken into account. A single national social insurance plan for the whole working population of the country is the only plan that we should consider and work toward. Mr. Robbins does not fear the down-leveling effect of a single national plan. He suggests that, as has been our experience with industrial employers under the Social Security Act, private plans can be continued for those who wish them and will pay for them to provide supplements to the minimum benefits under the compulsory system.

In listing his recommendations Mr. Robbins does not ask the impossible. He does not want to turn back the clock. He would not repeal the Railroad Retirement Act nor reduce the benefit rights of

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current pension beneficiaries. He is in fact a warm supporter of social insurance including unemployment insurance (which he also discusses but with which he is much less concerned). He wants a system considerably more rational and more equitable than the one we now have. He wants a statement of national social insurance policy. He is for a single national plan but he recognizes the difficulties in the way of immediate and radical reform. He is hopeful that, given time, we can gradually remake this sorry scheme of things, if not entire, then at least somewhat nearer the democratic ideal. In the meantime he has suggestions for the transition period. He would have social security coverage uniformly "include as nearly all gainfully occupied persons as possible" (p. 82); he would uniformly extend benefits to include chronic and permanent disability; he would defer increases in benefit scales until we shall have a sounder idea of ultimate benefit costs and of their impact on the economic system.

This is a competent piece of analysis, done with a breadth of viewpoints still rather rare in these United States. From a student whose objectivity is beyond question this pamphlet could have a considerable effect on opinion. German and British experience in attempting the coördination of separate schemes, each the product of accident and expediency, is not too reassuring. But the effort is not only worth making; if it is not made we will, if the present trend continues, end up with social choas and not social security. If only one could assume that these reasonable words would be read and pondered by those immediately responsible for social security policy.

C. A. KULP

UNIVERSITY OF PENNSYLVANIA

A Tax Program for a Solvent America. By HARLEY L. LUTZ, Director of Research, for The Committee on Postwar Tax Policy. New York, The Ronald Press Company, 1945.—x, 278 pp. $3.00.

The all-embracing end of economic policy, according to the Committee on Postwar Tax Policy, should be "the maintenance and continued growth of the economic system of free enterprise." More specifically, the Committee proposes certain limited objectives the attainment of which should be the peculiar contribution of the tax system. The Committee recognizes that "the maintenance of a prosperous and solvent economy is the first desire of the people." Prosperity requires a high level of production and employment; solvency requires

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" that the prosperity goal be attained. . .on a self-sustaining basis without resort to public deficit spending." In other words, the budget must be balanced; and, if the goal of " high-level employment " conflicts with that of a continuously balanced budget, prosperity must be sacrificed to national solvency. Unemployment may be increasing, owing to a decline in economic activity, but, in the Committee's opinion, " the economic craft which carries us is capable of righting itself after the wavelike variations that beset it," and there is every reason, therefore, to prefer stability of revenue in all kinds of fiscal weather to deficit spending and attendant increases in the public debt.

The general philosophy of the Committee is reflected quite as clearly by what it rejects as by what it accepts. Thus, in general, it rejects what it calls " the social purpose " of taxation, by which the Committee means using taxation to " level off the distribution of wealth and income " or to " check the building up of large fortunes." The rejection of " social purpose " in taxation means also that budget balance shall be achieved at minimum expenditure. Justifiable expenditures include Adam Smith's justice, police, revenue and arms, and one other, the protection of the public health. There is some provision in the Committee's sample budgets for certain " optional " functions of government, such as aids to agriculture, public works, foreign aids (lend-lease is given as an example), and subsidies to transport. But it is argued that, at any budget level, optional items should be kept to a minimum; for they compete with debt reduction, and the Committee believes that " it will be far more beneficial for the economy if vigorous effort is made to reduce the debt than if the people's resources are used up in providing more current benefits."

Regular payments of interest and amortization of the principle of the debt should be provided by a sinking fund; that is, the Committee's balanced budget calls for an indefinite series of annual surpluses of a constant amount. A diversity of revenue sources will be needed to make possible stability of tax receipts in spite of the instability of national income. In the Committee's plan, diversity of taxes for stable revenue means more taxes on consumption and a less progressive tax system; indeed, so long as the tax system is progressive at all, total tax revenue tends to fall more rapidly than taxable income during a slump. Reduced progression is to be accomplished by a high initial income tax rate, a slower progression in surtaxes with lower maximum rates, and a variety of excise taxes including, if necessary, a " general excise in the form of a retail sales tax." The Committee

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also recommends that federal estate and gift taxes be abolished and these taxes assigned to the exclusive jurisdiction of the states. This is another proposal for reducing progression; for it is contended not only that the states need the money, but that they are largely innocent of any "social motive", as relative scales of federal and state progression clearly indicate. In other words, there is little danger that the states will use these taxes to reduce inequality in the distribution of wealth.

Venture capital is to be encouraged by lower corporate income taxes, lower personal income taxes in the higher brackets, lower estate and gift taxes, and relief from the double taxation of dividends. Dividend receivers get a tax credit equal to their dividends multiplied by the initial income tax rate, which is the same as the initial rate on corporate income. This method, as the Committee admits, is inexact, but it is favored because it is simple, and therefore to be preferred to more precise but complicated methods. The Committee denies that dividend receivers with total incomes below personal exemptions are doubly taxed, although their dividends may have been taxed at the corporate rate. Dividend receivers in this class (widows and orphans, presumably) get no credit for taxes paid out of their dividends by the corporation (at effective rates varying, in the Committee's plan, from 20 to 40 per cent), although wage and salary earners in similar circumstances would not be taxed at all. Corporate savings, which the corporation holds on behalf of its stockholders, may cumulate as they do now subject only to corporate tax. The only recommendation here is that the present section of the revenue code penalizing unreasonable accumulations of surplus be liberally interpreted, so as to give wider discretion to management.

It is striking, indeed, that the encouragement of free enterprise, venture capital, and even high-level employment should, in the Committee's plan, coincide so precisely with a tax policy whose every deviation from current practice is in the direction of relief to high-bracket incomes and the imposition of relatively and absolutely heavier burdens upon the poor. In times of slump, the last-ditch defense of a balanced budget means more "shifts in emphasis" to revenue sources other than the income tax, and further burdens on the lower income groups. At all times those receiving the higher incomes from work and from investment are given tax relief; but the greatest relief will go to the least venturesome of investors whose incomes are both very high and relatively safe from the hazards of the business cycle. Relief to

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risky investments may be nullified by the incidental encouragement of safe investments (including "blue chip" stocks) which seems inevitable under the Committee's plan. Moreover, in the short run, risk capital is least able to bear the brunt of a deflationary "balanced-budget" policy in depression; and, in the long run, new ventures are not likely to be encouraged by the concentration of personal fortunes and of corporate control which go with greater inequality. Even within its avowed scale of values, the Committee's plan exacts a high price in inequality for these doubtful services to free enterprise, venture capital, and high-level employment.

An older school of economists also emphasized "sound" public finance, a balanced budget, and the encouragement of enterprise. But they recognized that there are degrees of inequality which no amount of "production" can justify. Even if we grant the Committee's dictum that there exists no principle to determine the precise rate of progression which a tax system requires for maximum equity, considerations of justice in distribution provide strong arguments for counteracting gross inequalities of fortune. The classicals failed to reduce social justice in the distribution of income to a simple formula, but there is no simple formula for maximum production either. Such precision is, in any case, beside the point; for, when ends conflict, the problem of choice or compromise is ethical, not economic. Among economists, therefore, the concept of justice in distribution is proof against both the well-meaning errors of its friends and the hard-headed attacks of its enemies. It will probably outlive this book.

DONALD B. MARSH

BARNARD COLLEGE

Tomorrow's Business. By BEARDSLEY RUML. New York and Toronto, Farrar & Rinehart, Inc., 1945.—vii, 238 pp. $2.50.

This book, as pointed out by the author (p. 235), is "...concerned with business as an instrument of authority and power, as a source of direction and decision....Business...is private government, since it is empowered by the state to organize and to make rules for the conduct of its affairs. Business is but one government among many...and in it, as in others, we must achieve personal dignity and freedom."

This is a study of the governed and of those who govern, its chief distinction, perhaps, being found in an approach to this subject through

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the part played by business principally, after which political government is brought into the picture.

The author begins, in Part I, after a statement of his "Prelude and Theme", by a careful and systematic examination of "The Aspiration for Freedom". This, in the opinion of this reviewer, is exceedingly well done and should prove profitable reading for any person seriously concerned with the question of human freedom. This section, like much of what follows, gives the book a philosophical quality of a high order and reveals an earnest, contemplative, and highly detached search for the basic verities in the field of industrial statesmanship by a man well aware of the profundities of the issues with which he is dealing.

In Part II, "Business as Private Government", lie what appear to be the most distinctive contributions in the book. The author's analyses, observations and recommendations with respect to business as a rule-maker, the management of business, the profit question, labor and labor unions, and related matters are penetrating and worthy of a wide reading.

Part III is devoted to "Fiscal Policy and Private Business" with chief attention given to national planning, governmental fiscal programs, public works, and related matters. His analysis leads to a nine-point fiscal program, heavily loaded with social planning, summarized on pages 229-232.

The author seems to find it easy to accept as desirable and as "consistent with prevailing ideas as to what the impulse to freedom demands" (p. 237) what is indeed a very large dose of government (especially federal) planning. The brevity of the book makes it difficult to describe or to appraise with accuracy the author's views in this respect.

He seems to be an advocate of a stable price level and at the same time of lower prices through lower costs. It may be that this apparent inconsistency was to be resolved by the following sentence: "Lower prices as a result of efficiency are desirable, since they increase the real income of the people, but they do not, fortunately, increase the value of the dollar because of the deflationary pressures associated with an insufficiently effective demand" (p. 188)—whatever that may mean.

Dr. Ruml stresses the "tendency of purchasing power to come to rest" (pp. 177, 230, and *passim*) and easily finds reasons, as a consequence, for justifying public expenditures to maintain "a desirable flow of purchasing power" to maintain a stable dollar, a healthy business, and the needed harmonies. One wonders why it is not just as

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accurate to speak of the "tendency of purchasing power not to come to, or remain at, rest."

The author belongs to the fiat money brand of quantity theorists—the legal tender quality and quantity, on the monetary side, being the determinants of the value of money (pp. 186-187). Monetary history is replete with refutations of this theory. He also falls into error in putting, by implication (p. 186), our Federal Reserve notes into the same class with the greenbacks of Civil War days. He has missed the significance of the indirect conversion of our Federal Reserve notes into gold.

To Dr. Ruml "inflation" involves a rising price level (p. 198). This would mean that we had no "inflation" from 1923 to 1929. The manner in which he sometimes uses the words "must" and "will" places some of his observations outside the limits of science. The book has no index.

WALTER E. SPAHR

NEW YORK UNIVERSITY

Nova Scotia: Report of the Royal Commission on Provincial Development and Rehabilitation. Halifax, King's Printer, 1944.—2 vols., not consecutively paged. $5.00 each unbound, $8.00 each bound.

The nature of Canada continues to make the Dominion probably the world's most complex problem in federalism, particularly in an era of extensive intervention by the state. The searching and original *Report of the Royal Commission on Dominion-Provincial Relations* which was published in 1940, and which was so blithely rejected by the wealthier provinces at the abortive Dominion-Provincial Conference which followed, has recently been showing strong and deserved powers of survival.[1] The marginal, poorer provinces, in their planning for the post-war period, have consistently hinged their proposals on some degree of implementation of the 1940 *Report*. The Dominion government called the provinces together again during August 1945, in order to discover whether five years of wartime experience with more unified federalism will provide the basis for a more equitable distribution of well-being in the future. The proposals made by the Dominion were so far-reaching that after some rather startled discussion the Conference adjourned for some months of further study.

[1] The Commissioners generously deposited their complete *Report*, together with a set of the briefs presented and of the hearings held, in the Law Library of Columbia University for the use of American students.

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The Nova Scotian *Report* under review is an excellent revelation of the plight of the marginal provinces and is a much better job than its predecessor of 1934, whose nostalgic laments for days that were gone forever were relieved only by a penetrating minority report from Professor H. A. Innis. This time there was only one Commissioner, Professor R. M. Dawson of Toronto. He wrote the "Report of Transmission", and the underlying reports on agriculture, forest industries, education, minerals, manufacturing industries, tourist industry, housing, transportation and minor activities. Certain specialists, including an American firm of consulting engineers which assessed the potentialities of the Cape Breton steel industry in a reassuring way, reported on public welfare services (G. F. Davidson), research and development (H. M. Tory), provincial finance (W. R. Maxwell), the Atlantic sea fishery (Stewart Bates), electric power (Alexander Brady), and labor relations (H. A. Logan). With one or two exceptions this proved to be a strong team. Shipping and shipbuilding and provincial-municipal relations had to be omitted except for incidental references.

American students will probably be more interested in the multiform proposals for moving the Canadian federation toward union than in the economic handicaps which motivate them, although a marginal state like Maine would find marked analogies to its position in the United States. Professor Dawson criticizes the 1940 Commissioners sharply (p. 57, "Report of Transmission") for their failure to stress the utmost development of the provinces and his "Report" never fails to do so for Nova Scotia, but the fruition of any substantial proportion of his recommendations would involve distinctly more federal than provincial responsibility. In other words, Nova Scotia continues her eighty-year-old campaign for "Better Terms" in the Canadian federation.

Generally speaking, the specific findings in nearly all of the fields examined are bluntly and decisively stated, and the precise recommendations are well designed to disturb the resignation and lethargy which are so apt to grip a region like Nova Scotia. There is clear and welcome emphasis on the vital importance of grading and high quality in production and the demand is made for complete house cleaning of the moribund Department of Agriculture and its lamentable College where research is prohibited. One interesting note is the recurrence to the potentialities of the diked marshlands which the Acadians found useful chiefly for stock-raising three centuries ago. Professor Bates's long careful report on the fisheries is committed to the introduction of the hated trawler (under the name of "dragger"), but throughout it

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insufficient attention is given to the problem of obsolescence in the future. For a number of reasons Nova Scotia has always lagged behind New England in the fisheries and it seems doubtful whether she could attain equality by a leap, and thereafter economically justify the expensive technical changes which might be needed to keep up in the race. Dawson's plain-spoken report on the tourist industry will delight anyone who has experienced the vicissitudes, from squalor to luxury, of travel in Nova Scotia, but he fails to tackle the strong disinclination of Nova Scotians to "demean" themselves in hospitality. He might have drawn attention to the combination of expert entertainment and sturdy dignity which characterizes Switzerland, Scotland, and the state of Maine. In fact, the tourist industry might have been given considerably greater prominence, especially in its literally tremendous potential effects on high-quality production in all kinds of enterprise all over the province.

The *Report* is easier to use than appears at first sight from its lack of continuous pagination, for each section is preceded by an admirable summary of findings and recommendations which is keyed to the sustaining numbered paragraphs. On the other hand, its absurd price justifies the belief that the Nova Scotian government is reluctant to have its contents reach the electors.

J. B. BREBNER

Safeguarding Civil Liberty Today. The Edward L. Bernays Lectures of 1944, given at Cornell University. By CARL L. BECKER, MAX LERNER, JAMES LAWRENCE FLY, ROBERT E. CUSHMAN and FRANCIS BIDDLE, and an Address by EDMUND EZRA DAY. Ithaca, Cornell University Press, 1945.—x, 158 pp. $2.00.

Although the Second World War has brought regimentation such as the United States has never seen before, the regimentation has given rise to comparatively little protest from the people in general or from any powerful and articulate group. Furthermore, until the appearance of this little book, we have had during the war period very little thoughtful discussion of the problems of liberty, problems which have to be faced from time to time if we are to preserve the essentials of our constitutional heritage. The volume therefore marks a step toward meeting a current need. The series of lectures which make up its contents reveals the common purpose of the several authors in searching for the basic elements of the liberty which the Constitution seeks to preserve. The authors seem to agree that the concept is a variable, that liberty properly means different things to different people.

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In the words of Carl Becker, "As one man's food is another man's poison, so one man's liberty may be another man's bondage. The essential liberties are those which men regard as such, and these vary a good deal from time to time and from nation to nation" (p. 3). The authors likewise demonstrate that liberty, whatever its definition, is an elusive phenomenon and that no constitutional guarantee is by itself sufficient to keep us from losing the substance while retaining the shadow.

"Guarantees of freedom", declares James Lawrence Fly, "do not operate *in vacuo;* they take on substance only in the light of the setting in which they are applied" (p. 66). Robert E. Cushman drives home the point that "civil liberty can survive only so long as it is supported and defended by public opinion" (p. 89). He does not think of public opinion exclusively in terms of a band-wagon approach but to a large extent as a product of the thinking of clearheaded and fair-minded individuals. Fly and Francis Biddle develop their arguments in terms of their experience as heads of the Federal Communications Commission and the Department of Justice, respectively. Max Lerner discusses implications of the fact that "we have moved in the past century from an agrarian economy in which the pursuit of freedom was arduous but not heroic, to a machine economy and a Big Property society where the still, small voice of freedom is often drowned out by the deafening noise of the machines and the tones of authority with which economic power speaks" (p. 49). Edmund Ezra Day calls for faith in the rôle of the great university, not as an instrument of propaganda but as a place of fearless search for truth and generation and tempering of sound ideas, declaring that "it is only as we strive for truth that we can achieve enduring freedom" (p. 158).

The book is thought provoking from beginning to end. It is worthy of most careful reading.

CARL BRENT SWISHER

THE JOHNS HOPKINS UNIVERSITY

Tin Horns and Calico: A Decisive Episode in the Emergence of Democracy. By HENRY CHRISTMAN. Introduction by Carl Carmer. New York, Henry Holt and Company, 1945.—xix, 377 pp. $3.75.

Professor Edward P. Cheyney's monograph (1887) on the anti-rent disorders in the state of New York, written when the last vestiges of agitation were disappearing, treated them as deplorable and unnecessary events. Time did not lend them greater dignity. Robert E.

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Spiller's *Fenimore Cooper, Critic of His Times* (1931), reflecting general opinion of a later period, noted them as constituting "an incident of little general significance" (p. 306). And yet it needs only a glance into Cooper's so-called "Anti-Rent" novels to realize how determined the Hudson River landlords were to maintain their feudal prerogatives: there was no end to their rationalizations in aggressively defending a system of land tenure wholly at odds with the promise of America.

The anti-rent struggle had significance. What was obviously required was an historical work which would recapture its substance. This Mr. Christman has now provided. He has steeped himself in his subject and matured his impressions, so that his story is completely and yet economically told. Focusing steadily upon the counties surrounding Albany, he succeeds nevertheless in giving them an importance which is rightfully theirs. The author is at all times the partisan, with no sympathy to spare for anyone suspected of up-rentism, but he has not tampered with the issues involved, and he has earned the right to his opinion.

It may be granted that the system of "leaseholds" which prevented tenants from ever owing the land they tilled had its place in the history of New York settlement, and had even in its time imposed certain duties upon the Van Rensselaers, the Livingstons, and other great landlords who benefited from it. But much the same could have been, and was, said in behalf of the slavery system. In addition, policy regarding the public lands and their disposition was, in 1839 when anti-rentism flared into national view, tentative and unformulated. Had the "leasehold" farmers not succeeded in their struggle, their failure might have reflected itself unfavorably on the national scene. The farmers were themselves, of course, chiefly concerned only with being relieved from unconscionable debt, from an inability to purchase their land, and from related difficulties. Mr. Christman, however, has not only rescued from neglect such leaders of anti-rentism as Dr. Smith A. Boughton and Lawrence Van Deusen, but also agrarian reformers engaged in the down-rent conflict like Thomas A. Devyr and Alvan E. Bovay. He has, further, drawn the direct line of relationship from anti-rentism to George H. Evans and the broader movement for social reform, as well as to the Free Soil and Republican parties.

The question remains whether the more radical aspects of the struggle—the secret associations with their "tin horns and calico" disguises, the armed resistance to posses and militia—helped or hindered the struggle for emancipation. Neither the farmers nor their

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leaders seem to have noted the "decline of aristocracy", of which the late Dixon Ryan Fox wrote. The spirit of government had indeed undergone many changes since the great anti-rent rebellion of 1766. Had the farmers used their ballots wisely, they might more quickly have attained their objectives. But experience had to precede wisdom. They began with unity among themselves—one is impressed by the "man-made echo" of tin horns from farm to farm warning the tenants of the sheriff's approach. They challenge the patroon in the Helderberg War of 1839. They gradually acquire leaders, test the state legislature, enter politics, and elect putative anti-rent representatives with varying results. Their differences with the landlords reach a pitch of violence which results in a state of insurrection being declared in Delaware County, and in harsh court sentences being meted out to several of their leaders. They abandon disguises and armed resistance and achieve their ends by constitutional means and judicial decisions. There is never any doubt that they seek democratic ends.

Historians will pause in their reading of *Tin Horns and Calico* at several points. One would, from Mr. Christman's account, scarcely believe, for example, that Governor Silas Wright was a liberal famed for his integrity. The bibliography, though comprehensive, omits a few highly pertinent works which the author, to be sure, may have consulted. Such are the details which can be adjusted among those professionally interested. They scarcely detract from a work which vividly re-creates an important episode in the progress of American democracy.

LOUIS FILLER

WASHINGTON, D. C.

The Virgin Islands, from Naval Base to New Deal. By LUTHER H. EVANS. Ann Arbor, J. W. Edwards, 1945.—xi, 365 pp. $3.50.

In this book Luther Evans has given a complete, accurate and frank discussion of the United States governing an insular possession. He deals with two distinct periods: 1917 to 1931 when the Islands were under the Navy Department, and the first years of civilian government under the Interior Department; 1931 to 1935 which might well be called the Pearson Administration.

Mr. Evans' account of the first period is short, but he covers well and accurately the period of 1931 to 1935. His chapters on administration, finance and courts are fully documented so that a real understanding of the systems employed can be gained. The brief history

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of the Islands, the story of the purchase of them by the United States is adequate to show how and why we own them.

One of the author's greatest contributions is breaking down some of the erroneous but firmly established myths of neglect and ill-use which constantly appear in the publicity about the Virgin Islands. Those who have furthered such ideas are debunked and the criticisms and lamentations put in their proper place. The true part prohibition played in the economics of the Islands is given as well as the causes for St. Thomas harbor difficulties.

The United States government does not escape Mr. Evans' just criticism, but he points out that it has done a fine job in providing courts with justice, schools of reputable standing, hospitals, sanitation and public works. He includes the full text of the "Organic Act" of June 22, 1936 which in itself proves that the constitution for the Virgin Islands is a fair and equitable plan to guide administrators and to guide the people.

The author asks, "Do we owe the Virgin Islanders a scale of governmental service which will merely protect them from disease and starvation, or are we under an obligation to elevate them to what Naval officers so fondly referred to as American standards?" This process of elevation costs money. For a number of decades the Island revenues have been less than the cost to insular government and the federal government's "central administration" expenses. The Danish state contributed substantial amounts, the naval administration secured appropriations from Congress, and the civil government reached an all time high in securing funds.

Mr. Evans points out, "Had large Danish investments in various enterprises not been made in the first decade of this century, the Virgin Islands would doubtless have been in far worse condition when they were taken over by the United States." Speaking more of the Interior Department and Congress, he observes that "Seriously complicating the Virgin Island problem is our Government's inability to assess the value of the Islands to the United States and to hold consistently to clear objectives in the economic, social and political development of the Islands." In general, however, the main objectives of the United States government have been to make the Islands self-supporting and to enable the Islanders to assume more political responsibility. The Virgin Islanders are anxious for the latter, and the United States government has been generous in offering them aid and opportunity.

Just as good government depends on good administrators, so the degree of political and social betterment depends on the caliber of the

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governed, and fully to understand the Virgin Islander Mr. Evans says "one would have to consider at length such subjects as chartered company profit making, slavery, slave insurrections, plantation agriculture in the tropics, sugar prices, planter aristocracy, droughts, hurricanes, buccaneers, taxation, local self-government, routes of trade, rum, religion, Negro profligacy, and bastardy."

He remarks: "It is not likely that Congress or the people will soon see the Virgin Islands in their true light, as a small county of some Southern State with three fair sized villages, overrun by Negro tenant farmers unable to live except by the bounty of external trade or of external subsidy, emitting lamentations and imprecations without end." This is oversimplifying the problem of the Virgin Islands. Rather than one small county they are three islands separated by rough seas. One has a truly agricultural economic base, one is really only a port with its commerce, and the other is mostly "bush". Also, the population of the Islands is made up of many nationalities in the slow process of becoming Americans.

The reviewer differs from the author's conclusions, but this undoubtedly is because much has happened in the ten years from 1935 to 1945; and Mr. Evans draws his conclusions in 1935. Recent events justify more optimism about the ultimate success of "economic rehabilitation", which proves that time is needed to establish a sound economy. It is the opinion of the reviewer that this can be done and should be done until Island revenues can pay for the cost of the insular government activities. Then there need be only a few essential federal employees and the effective poorhouse would become a self-sustaining unit. For St. Croix a continued program of processed agricultural products can furnish a livelihood for the people and revenue to balance the budget. As for St. Thomas, the recent activities of the harbor and manufacturing have already proved the budget can be balanced.

BOYD J. BROWN

NEW YORK CITY

Strangers in India. By PENDEREL MOON. New York, Reynal & Hitchcock, 1945.—vii, 184 pp. $2.00.

Using a question and answer method in a breezy, conversational style, Mr. Moon has written a thoughtful book. Its chief merit lies in an honest attempt to appraise the British position, and to criticize constructively both native and English institutions. The author, who

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for over fifteen years was in the Indian Civil Service, indicates his modesty by the very title of his book, in refreshing contrast to those who after a few months of residence would pass a verdict on India.

If Indian self-government has been the goal of English policy for one hundred years, he queries, why have they waited so long before taking any substantial step toward it? Nevertheless he is convinced of the advantage to India of British rule which he believes was free from irregularity, caprice and corruption, dealing out even-handed justice irrespective of caste and creed. Yet he frankly admits that government officials suffered from wrong notions of prestige and represented as a blow to the administration, things which offended only their *amour-propre*. He even quotes Macaulay: "They [the Indians] had been accustomed to live under tyranny but not under tyranny like this."

Reference is made to W. H. Moreland's statement that India today is little, if at all, richer than she was at the death of Akbar. Relatively, India has retrogressed. In the seventeenth century, the traveler was impressed by her riches; today he is appalled by her poverty. Conditions might not have been such if large-scale industrial development had been encouraged. Down to 1921, the rate of increase of the Indian population was less than that of any country in Europe and much less than that of England, but because the population grew as fast as the cultivated areas increased, there was considerable addition to the total wealth of the country but not much, if any, to the wealth per capita. Large-scale coöperative planning on a village basis, preceded by a writing-off of the agricultural debt and a revision of landlords' rights, coupled with a five to ten year plan for industrial development based on a rapid extension of hydro-electric and irrigation schemes, is suggested as a suitable foundation for material progress.

The Hindu-Moslem problem, Mr. Moon believes, was not created by the English, but their presence made its solution more difficult. With the growth of the Hindu nationalist movement, Moslems became friends of Britain, and separate electorates accentuated communal antagonisms. The Moslem League is described as a purely communal party without any social or economic policy, interested only in the securing of posts and power for middle-class Moslems. Congress is called an "omnium-gatherum" held together by dislike of British domination and also without any definite social and economic policy. Yet if Congress and the League had to reach an agreement or fight, they might reach an agreement. Pakistan is no real solution, since partition would create as many problems as it solves. The author agrees with Professor Coupland of Oxford that, if the functions of a federal government

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were reduced to a minimum and the Moslems were given an assurance regarding the sharing of power, their fears might be allayed.

After deprecating the fact that the English professed to be champions of the democratic faith in India but preserved and leaned for support on the obsolete autocracies of the Indian states, the author advocates Indian self-government and makes the unexpected, provocative though somewhat doubtful, proposal that India should look to these native states for sound development, since they are free from exotic political forms and give expression to the deep-seated Indian respect for authority and hereditary rights.

The book ends with the thought that, while Hindu India is attracted to China, Moslem India to Great Britain, and the intelligentsia of all classes and communities to Russia, even those who are the most bitter and critical of the British are so steeped in Britain's thought and culture that they can never feel wholly separated from her. One may not agree with all the conclusions, but one is forced to respect the sincere attempt of this Britisher to propose a solution of Britain's dilemma in India.

Albert E. Kane

Washington, D. C.

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BOOK NOTES

The German Record: A Political Portrait, by William Ebenstein (New York and Toronto, Farrar & Rinehart, 1945; ix, 334 pp. $3.00), is another wartime book that seeks to explain National Socialism and German military aggression as the result of long-standing lacunae in Germany's cultural and political tradition. The main idea is that, while not all Germans are Nazis, most of them think so much like Nazis that they are about as bad. Germany, we are reminded, never really accepted western civilization, with its humanitarian cultural and ethical standards. Instead, the primitive values of authority, obedience and force rule German culture beneath a thin western veneer. Professor Ebenstein's book is well documented, but, since he is trying to make a case, he has selected only those materials which substantiate his thesis. It must be confessed that there were plenty of materials for him to work with, and the portrait which he paints, therefore, is not a photograph but a grim drawing in black and white, mostly black. In eight semihistorical chapters, the author limns in bold strokes the German antipathy to western ideals, the nihilistic amorality of Prussianism, that peculiar concept of freedom that is so easily fused with authoritarianism, the pathetic weakness of German liberals and antimilitarists, the militarist proclivities of the Weimar republicans—these are the prominent features. Softening lines and shadings are cut away. It is a good picture, and there are many who ought to see it, and keep it in mind. Unfortunately, it is often marred by bold and questionable judgments. Lutheranism, says Dr. Ebenstein, was an attempt to pit Germany against Europe (p. 17). And, France drew closer to Austria in 1756 because Prussia was bound by no standards commonly accepted in Europe (p. 68). Again, because Germany could rearm in the 1920's and 1930's, she could have paid reparations with equal facility (p. 291). This sort of thing weakens Professor Ebenstein's brief. But his case is well made despite all the errors and half-truths

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that appear. Two concluding chapters place the German portrait in the contemporary world scene. The only hope for Germany in the future, the author concludes, is for the despised few in Germany who have shared western ideas to become the many. In the meantime, they should rule Germany even though they are a minority.—GEORGE D. CROTHERS, Columbia College.

A study of the occupation governments of the Rhineland from 1918 to 1923, which contains a thorough and authoritative description of the actions and policies of that occupation—*Military Occupation and the Rule of Law: Occupation Government in the Rhineland, 1918-1923* (New York, London, Toronto, Oxford University Press, 1944; xi, 267 pp. $3.50) by Ernst Fraenkel—is of considerable current value. Dr. Fraenkel sets forth the institutions and instruments of that occupation and describes their actual functioning. He brings into focus difficulties of overlapping military and civilian jurisdictions, and emphasizes the importance of economic considerations. The deficiencies of the Armistice terms and of the Rhineland Agreement are well brought out. They suggest many pitfalls which should be avoided. His story of judicial review of actions of the occupying authorities by the German courts (chapter ix) is a penetrating commentary on those courts, particularly the *Reichsgericht*, at that time. If one were disposed to be critical of any aspect of so excellent a book, he would probably select the extended discussion of war crimes. In the author's preoccupation with the jurisdictional question, he appears to have lost sight of the fact that the essence of the problem he presents lies in an appreciation of the nature of the applicable substantive law. His omission in this regard may account for his remarkable statement (p. 65) that, "on a sound legal basis", the present Allies can "refuse the privileges of extraterritoriality to those who have participated in the occupation of our allied nations, and at the same time claim those privileges for our own troops in occupation of enemy territory." Dr. Fraenkel may rest assured that his hope that " an analysis of the Rhineland occupation may prove of some value for understanding the problems that will confront a future occupation regime " has already been realized.—WILLARD B. COWLES, New York, N. Y.

In Dr. Alfred Bilmanis' *Baltic Essays* (Washington, D. C., Latvian Legation, 1945; 267 pp.) the reader finds a story well worth close perusal and serious reflection. It deals primarily with the three Baltic states: Estonia, Latvia and Lithuania. Substantial historical and other

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background material—some of it in fact perhaps needlessly extensive—permits proper understanding of the events since 1939. It is not a pretty story. Undisguised Russian aggression during the period when Hitler and Stalin coöperated after the pact of August 1939, leading to the inclusion of these states in the Soviet Union in 1940; subjugation by the Germans for three years after the former partners had become enemies; and a second conquest by the advancing Russians that was completed as Hitler's invasion was thrown back are told in somber language of official and other sources. Incidentally, an American reader finds in these pages the essential facts regarding our own policy toward the Baltic states over the past half-dozen years. It is inevitable, in view of the tragic fate of the people of these nations, that the author must deal with controversial questions. Argument and rebuttal, therefore, are conspicuous features of his book. In this reviewer's opinion, however, Dr. Bilmanis has succeeded, to a suprising degree, in keeping his exposition on a high level. Considerable weight is added to his analysis and conclusions by the fact that he calls a spade a spade; aggression he labels by its right name no matter who the aggressor is, and the same is true of appeasement. In the light of the content of this book it is impossible to escape the conclusion that the freedom of the individual and the independence of the nation in the Baltic lands will be nonexistent so long as the people have no democratic voice in determining their own fate. Totalitarian force has robbed them of the mastery of their own household since 1939 and there appears to be no reason for hoping that the situation will change in the near future. Ten pages of statistical tables, an ample bibliography of over forty pages, and an index add to the value of the book.—JOHN H. WUORINEN.

Students of Far Eastern and Pacific affairs will welcome the appearance of the first popular account of Indonesian history in the English language—*The Story of the Dutch East Indies* (Cambridge, Harvard University Press, 1945; xvii, 233 pp. $3.00) by Bernard H. M. Vlekke. Mr. Vlekke, author of a definitive history of the Indies (*Nusantara: A History of the East Indian Archipelago*, 1943), has provided the average English reader with a clear, readily assimilable recital of Indonesian history, beginning with the early Malayu and Shrivijaya dynasties and ending with the Japanese invasion and the American counterattacks (preface dated March 15, 1945). In many respects Mr. Vlekke's book complements Raymond Kennedy's admirable popularization, *The Ageless Indies* (1942), the former supplying the historical

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details, the latter the ethnological details; the two works together thus make an excellent introduction to the area for the non-specialist. Of special present interest is Mr. Vlekke's chapter on Indonesian Nationalism, which includes discussions of the Budi Utomo and Sarekat Islam movements along with the Communist Party of the Indies. The author is rather outspoken in his denunication of some of the earlier phases of the Dutch colonial program in the Indies, especially of the notorious culture system of the nineteenth century, yet is not more than mildly critical of the recent administrative policies of the Dutch. Certainly at some points his discussion seems curiously outmoded in the light of recent developments; the final sentence of the book ("The liberation of Batavia will not be long delayed") is symptomatic. This reviewer feels that the economic aspects of Indonesian history, particularly of the modern era, are hardly treated in sufficient depth or detail, even for a book of this nature. One would scarcely anticipate, for example, the complete omission of any mention of the powerful quinine monopoly and its world-wide ramifications. A minor criticism: throughout the early chapters Mr. Vlekke consistently uses the term "Hindu" as the equivalent of "Indian"; thus we read (p. 15), "The religion of the Hindu-Sumatrans was Buddhism." This compromise with popular usage, encountered only too often in works of this type, is based on the reasoning that the average reader will misinterpret the proper ethnic term, "Indian". It is essential, however, that "Hindu" be retained in its restricted religious sense to provide contrast both for "Buddhist" and "Moslem", there being no adequate alternative term (Mr. Vlekke's use of "Brahmanist" in this sense is inexact). On the whole, therefore, it would appear that minimal semantic confusion obtains when "Hindu" and "Indian" are employed in their proper restricted senses, and the retention of this distinction is recommended. —PAUL K. BENEDICT, Hatboro, Pa.

Since the nineteenth century, we have been presented with countless plans for the solution of the perennial Balkan problem. The Anglo-Saxon mind has been particularly enticed by the idea of a Balkan federation. "How practical were the plans for cooperation and unity was demonstrated by the long series of wars which punctuated the history of the Balkan peninsula with such tragic frequency" is L. S. Stavrianos' bitter evaluation of such concepts, who traces in *Balkan Federation: A History of the Movement Toward Balkan Unity in Modern*

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Times (Northampton, Smith College Studies in History, Vol. XXVII, Nos. 1-4, 1944; viii, 338 pp. $2.00) the modern phase of the Balkan federation movement to Catherine the Great's projects and campaigns. His is the best study of these designs available in English. Strange to say, the author has, however, accomplished much more than he has planned for. He presents, in fact, a mélange of history of diplomacy, nationalism, political movements, Pan-Slavism, Illyrianism, and other assorted topics pertaining to the Balkans, relating them to the federation movements. It is also to the credit of Stavrianos that he pays special attention to those aspects of the federation movements which have hitherto been overlooked, particularly the agrarian and labor federation forces. The study is not, however, without its faults. The bibliography of eighteen pages is the best available compilation of the secondary sources in German, French, Greek and English on the Balkans, but several important studies in English are missing. Sometimes Stavrianos depends on such secondary sources as Kovacs' *The Untamed Balkans*. Those who have traveled in the Balkans will doubt his assumption that "in the countryside it is difficult to distinguish a Bulgarian from a Serbian, Greek, or Roumanian village excepting those in the coastal or strictly Mediterranean regions where another type prevails", and that "the costumes are fundamentally the same despite local variations" (p. 3). We may hope that the author is right when he claims that "the events of the next few years may reveal that a Balkan federation is closer to realization now than at any other period in the modern era" (p. 271). Although this is not a great book, it is nevertheless a book of uncommon quality which has brought together an extraordinary amount of material relating to the recent Balkan history. It will serve as a handy minor encyclopedia on the region and as such it is an invaluable reference work.—JOSEPH S. ROUCEK, Hofstra College.

The latest attempt to make Americans cease taking Canada for granted is *Canada: New World Power*, by Louisa W. Peat (New York, Robert M. McBride & Co., 1945; 293 pp. $3.00). The fact that such volumes have been appearing in an accelerating succession during the past five or six years is more of an indication that Americans have become aware of Canada than that the books have been effective in making them so. The present example is of no use to students, for sampling reveals a moderately serious error in every four or five pages. The worst misconception is the optimistic myth concerning immigra-

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tion and capacity for another hundred million inhabitants which completely disregards history and modern population studies. This carries over into other fields, notably a misleading picture of settlement in the Clay Belt. Conceivably this sprightly, catch-as-catch-can blend of travelogue, hearsay and abused statistics might arrest the attention of a benevolent and ignorant reader, but he would do well to pay more attention to the frequent acknowledgments of Canadian contradictions and complexities than to the assured disposal of some of them. —J. B. BREBNER.

What may be called the outer and official side of the movement for Australian federation, culminating in the establishment of the Constitution of the Commonwealth in 1900, has been voluminously recorded. The debates in the constitutional conferences and conventions of the 1890's were promptly published, as were the relevant debates in the legislatures of the several Australian colonies. *The Federal Story: The Inner History of the Federal Cause* (Melbourne, Roberts & Mullens, 1944; xiii, 170 pp. 12*s.* 6*d.*) is an important contribution to the unofficial and personal history of the movement by Alfred Deakin, one of the leaders among Australia's Founding Fathers. The manuscript, which was finished in 1900, remained unpublished for nearly forty-five years and was never revised by the author. It appears under the editorship of Herbert Brookes with a foreword by the well-known Australian statesman and warm admirer of Deakin, William A. Watt. It throws new light on some events with which the official record deals, but its value consists mainly in Deakin's characterizations, estimates and thumbnail sketches of men concerned in the federal movement. He did not accept the view that historical events are predestined and inevitable, and therefore personalities, circumstances and contingencies seemed to him of vital importance. In a brief epilogue he wrote: "The fortunes of Federalism have visibly trembled in the balance twenty times during the past ten years and have from the first moment to the last been subject to endless unforeseen and unpreventable interruptions, every one of which might have indefinitely postponed its triumph. . . .To say it was fated to be is to say nothing to the purpose; any one of a thousand minor incidents might have deferred it for years or generations."—R. L. SCHUYLER.

Among our journalists who write history for the masses, none has covered so much of the *terra cognita* of American history as Ambassador Claude G. Bowers. He has produced long accounts of the Jef-

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fersonian, Jacksonian, Reconstruction, and Progressive eras, all of which may be said to have certain things in common: they are written from points of view favored by historical specialists; the points of view are consistent from one volume to another; the books are discursive, rambling, ill-organized and overlong, but they are frequently good reading and invariably dramatic; finally, they are based on inadequate samplings of source materials, used with very little discrimination. Mr. Bowers at his best has been entertaining, stimulating and shrewd. At his worst, he is tediously well-meaning but shallow. In his latest volume, *The Young Jefferson, 1743-1789* (Boston, Houghton Mifflin Co., 1945; xxx, 544 pp. $3.75), he is at his worst. Jefferson had stated the basic philosophy of the American way long before 1789, Mr. Bowers says over and over again, and if he had died at 33 or 36 or 46 he would have been among the immortals. But if he had stated basic principles as facilely and as generally as Bowers does for him, he would scarcely have been effective among his own contemporary mortals. Much has been learned and much published about Jefferson since Mr. Bowers' earlier books, but he has not used any of the new materials. He repeats old legends and spurious dialogues, he invents windmills to tilt against, he invests the Revolutionary movement with a simplicity of line it could never have had. Careless writing is annoying from any author, the more so from one so experienced. Thus one winces to find Cesare Beccaria constantly called Boccaria, wonders how Daniel Dulaney could ever have found his way into Mr. Bowers' notes as John Delaney, and laughs aloud to read, ". . .soldiers within sight of Yorktown mutinied in Pennsylvania, Connecticut, and New York. . ." It is distressing to find works (such as Boyd's *The Declaration of Independence: The Evolution of the Text,* the title of which Bowers garbles) listed in the bibliography of books consulted, when they have been so conspicuously ignored in the text. Mr. Bowers has written books which are among the best of their *genre.* This one will be no credit to them, to him, or to Jefferson.—JOHN H. POWELL, Free Library of Philadelphia.

In *Saints and Strangers* (New York, Reynal & Hitchcock, 1945; xii, 513 pp. $3.75) George F. Willison has endeavored to destroy the mythology that still persists concerning the Pilgrim Fathers, their families, their friends, their foes and their beliefs. This is not the first time that Americans have been warned against the legends which nineteenth-century romantics created out of the story of the English settlers who

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founded Plymouth; but never before has the warning been stated with such shrewdness and wit. Indeed, there is a quality about Mr. Willison's prose which probably would have pleased that astute and plain-spoken "saint"—William Bradford, whose writings so clearly reveal many phases of the transit of civilization from the Old World to the New. But Bradford was concerned with only a few decades in the early history of Plymouth Plantation, while Willison describes the long and perilous journey from Scrooby Water to Plymouth Harbor, by way of Amsterdam and Leyden. It was so devious a route that by the time the little band reached its American haven its list of members contained more "strangers" than "saints". If they manifested too often the intolerance of men determined to succeed in their own way, they were also inspired at critical times by a "conception of life based upon recognition of the intrinsic worth and dignity of the individual." This spirit ran through all the troublous years from the landing in 1620 until Plymouth became part of the Province of Massachusetts Bay in 1692. It helps to explain why nineteenth-century Americans, eager to dramatize their independent nationality, so easily elevated the Pilgrim saga and Plymouth Rock into glorious symbols of freedom and democracy. In so doing, they praised the Pilgrims excessively "for accomplishing what they never attempted and gave them a reputation for prudery which they never deserved." The student of American history will enjoy Mr. Willison's spirited account of the lusty sons and daughters of Elizabethan England who sponsored the movement that made the Plymouth settlement possible. He may, however, put the book aside with the feeling that for an understanding of the American ethos there is still more importance in the errors concerning the Pilgrims than in the more recently discovered truth.—John A. Krout.

The subtitle of the lively and well-written little volume, *The First Americans in North Africa: William Eaton's Struggle for a Vigorous Policy Against the Barbary Pirates, 1799-1805*, by Louis B. Wright and Julia H. Macleod (Princeton, Princeton University Press, 1945; vii, 227 pp. $3.00), states the theme which the authors develop from the rich and heretofore little-used Eaton manuscripts in the Huntington Library. Through the eyes of this forthright and tactless Yankee (our first consul in Tunis) the story unfolds, tempered by the canons of careful scholarship. Interesting illustrations and useful maps add to the general attractiveness of the book. The account leads off with a succinct review of the centuries-old depredations of the North African

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cutthroats, and the European jealousies which made them possible. From Eaton's first glimpse of a Barbary potentate—"a huge shaggy beast, sitting on his rump . . . with his hind legs gathered up like a tailor . . . ."—he fumed at the indignities suffered by his country, and insisted that cannon balls were the only proper instrument of diplomacy in dealing with the whole tribe of hellhounds. Thus he welcomed war with Tripoli in 1801, the desultory character of which is well portrayed. In this connection the authors emphasize the commonly overlooked fact that Congress and President Adams, rather than Jefferson, must bear major responsibility for the inadequacy of the navy; and they remind us that Jefferson had been of like mind with Eaton respecting a policy of force since 1786. Thus, in 1803, he gave the ex-consul permission to execute his plan of placing Hamet, the deposed brother of the ruling Pasha, on the throne of Tripoli in order to enjoy the advantages of a puppet government favorable to the United States. With many a splash of color the authors trace "General" Eaton's odyssey from Alexandria to Derna (Montgomery's route in World War II) after recruiting an army and hunting down the elusive Hamet far up the Nile. How he held his conglomerate following of Arabs, Christian desperadoes, and eight marines together, and kept the chicken-hearted Hamet from flight, presents an impressive story of success under almost insuperable difficulties. Through no fault of his own, Eaton failed to execute his original plan, but his display of strength scared the Pasha into making a favorable treaty with the United States and furthered American prestige on the whole Barbary Coast. Commendation is due the authors for their service in lifting a temporary hero from the partial obscurity which he helped create by his tactless deportment after returning to America.—FRED W. WELLBORN, Iowa State Teachers College.

The Second World War has resulted in the writing of several books devoted to the history of the Dutch people. Three of these were published in New York City, of which the latest is *Evolution of the Dutch Nation* (New York, Roy Publishers, 1945; xi, 377 pp. $3.50), by Bernard H. M. Vlekke; the other two were written respectively by Professor A. J. Barnouw and Hendrik Riemens. They have much in common. In some respects they are superior to the admirable volume by George Edmundson (*History of Holland,* and not *History of the Netherlands,* as Vlekke has carelessly put it), but they do not by any means supersede it, even though it was published as early as 1922. They

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all have been written in a popular vein and lack the scholarly touch and superb style that marked not only the work of Edmundson but also those of the great Dutch historians (P. J. Blok and R. Fruin) at the beginning of our century and of Henri Pirenne, the noted historiographer of Belgium. Vlekke's book has many good qualities, however, especially such fine values as objectivity, lucidity, clarity, and proper distribution of the subject matter. His notes and bibliography are helpful to the uninitiated readers, but they seem puerile compared with the contributions of the masters in Europe. He feels that he has surpassed them in the field of interpretation, and he boldly announces that, contrary to their antiquated opinions, " the Netherlands were born of the sea"; that " the 'Middelzee' had already been turned into fertile fields by the end of the XIIIth century," but somehow, after the sea had disappeared, "a century later the sea was pushed back another five or six miles"; that in medieval Holland and Friesland there was no serfdom; and that in 1500 "death had removed all other heirs to the Spanish throne" except Philip of Hapsburg. Vlekke is also of the opinion that decisions in the States General of the Dutch Republic " had to be unanimous ". Professor R. Fruin had long ago explained that this was a superficial view and shared by nearly all foreigners, one of them being later on George Edmundson, whose description of the Dutch government in the Golden Age is unsatisfactory.—Albert Hyma, University of Michigan.

Professor Norman Hill's scholarly study, *Claims to Territory in International Law and Relations* (New York, London, etc., Oxford University Press, 1945; vi, 248 pp. $3.00), comes from the press at a timely moment when world attention is once more being focused on the settlement of boundaries and contested territories in many parts of Europe and the Far East. Although this book does not undertake to deal with present-day problems, it will nevertheless be helpful to all who are interested in the solution of the vexing territorial claims facing the statesmen of the United Nations. It is a painstaking review of the different types of claims which have been advanced heretofore for the acquisition of territories. It also endeavors to explain why nations seek additional territory, and the various methods which have been employed for dealing with these claims. Particular attention is devoted to the territorial issues confronting the Paris Peace Conference in 1919. In this connection Professor Hill has examined much of the source material hitherto untouched by writers on the same general subject.

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He finds that claims have been advanced under seven headings: strategic, geographic, historic, economic, ethnic, non-legal and legal bases. Under each of these classifications he discusses the principal claims that have been made during the past century. The actual language employed in the claim is cited in many instances, and the author does not hesitate to indicate cases in which the facts have not always supported the contention. The concluding chapter analyzes with examples the various methods of peaceful settlement by which territorial disputes have been dealt with in the past. As such it forms a useful commentary on procedures which may be employed by the United Nations in approaching some of the current claims. The book will be useful to all who wish to understand the motives which lead nations to claim foreign territory, and the problems which must be resolved in satisfying such claims. The book is readable, thoroughly documented, and is a contribution to clear thinking upon one of the most confusing features of international relations.—NORMAN J. PADELFORD, Massachusetts Institute of Technology.

Professor James W. Martin's monograph, *Southern State and Local Finance Trends and the War* (Nashville, Vanderbilt University Press, Lexington, University of Kentucky Press, 1945; 106 pp. $.50), deals primarily with wartime fiscal developments in fourteen southern states. It has an interest, however, which transcends the southern region. No comparable study in the field of state and local finance has as yet been made for the country as a whole. Professor Martin supplies this deficiency in part, since in his discussion of southern trends he makes constant reference to what has been happening in other parts of the nation. Wartime fiscal trends are treated under five separate heads: state and local revenue, state and local expenditure, intergovernmental fiscal relationships, state and local debt, and trends in fiscal administration. In tracing trends in the field of revenue, expenditure and indebtedness, the author relies on the United States Bureau of the Census data, the limitations of which are discussed in an appendix. For developments in fiscal administration, he draws on a variety of documents and reports and on his own extensive experience. Professor Martin's conclusions must be evaluated in the light of the fact that his statistics do not go beyond June 30, 1944 and for some important items do not extend that far. It is nevertheless evident from his study that the war has wrought no radical changes in state and local finance. Despite the shrinkage of certain sources, state and local revenues have on the

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whole increased faster than expenditures. As a result there has been a moderate over-all decline in net state and local debt, the geographical incidence of which has not, however, been uniform. As the author strongly intimates, the main impact of the war on state and local finance may still be in the making. Its ingredients are likely to be the decline in revenues which will ensue if wartime income levels drop sharply, the wartime loss of experienced state and local personnel, the need for a higher scale of remuneration for existing and new personnel, and the extensive undermaintenance of public facilities which prevailed during the war. Professor Martin has built an impressive edifice out of meager and recalcitrant materials. Followers will find his monograph highly suggestive and useful.—CLARENCE HEER, University of North Carolina.

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